

# EXHIBIT 3

STATE OF CONNECTICUT  
PUBLIC UTILITIES REGULATORY AUTHORITY

DOCKET NO. 14-01-46

JOINT APPLICATION OF FRONTIER COMMUNICATIONS CORPORATION AND  
AT&T INC. FOR APPROVAL OF A CHANGE OF CONTROL

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**PREPARED DIRECT TESTIMONY OF**  
  
**ROBERT W. STARR**  
  
**SENIOR VICE PRESIDENT AND TREASURER**  
  
**ON BEHALF OF**  
  
**FRONTIER COMMUNICATIONS CORPORATION**

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MARCH 13, 2014

1    **I.        INTRODUCTION**

2    **Q.        Please state your name, occupation and business address.**

3    A.        My name is Robert W. Starr. I am Senior Vice President and Treasurer of  
4            Frontier Communications Corporation (“Frontier” or the “Company”). My  
5            business address is 3 High Ridge Park, Stamford Connecticut, 06905.

6

7    **Q.        Please state your educational background and experience.**

8    A.        I earned a B.S. in Marketing from the State University of New York, College at  
9            Oswego, and an MBA in Finance from New York University’s Stern School of  
10          Business Administration. My executive education includes the Financial  
11          Management Program at the Stanford University Graduate School of Business  
12          and the Negotiations Program at Columbia University’s Graduate School of  
13          Business.

14

15   **Q.        Please provide a brief history of your employment and current**  
16   **responsibilities at Frontier.**

17          I was appointed Treasurer of Frontier in August 2012. I am responsible for  
18          Frontier’s Treasury operations, including cash and investment management,  
19          capital markets activities, committed credit facilities, and managing relationships  
20          with banks, debt investors and rating agencies. I am also responsible for assisting  
21          the Company’s Retirement Plan Committee in managing Frontier’s pension and  
22          401(k) plan, and its Fleet operations and activities. Prior to that, I served as  
23          Global Treasurer at Lazard Frères & Co. LLC, where I was responsible for global

1 cash and investment management, risk management, and management of all bank  
2 and rating agency relationships. Previously, I was Managing Director and  
3 Corporate Treasurer for the Ambac Financial Group, Inc., where I established a  
4 formal treasury function and was responsible for cash and investment  
5 management, bank and rating agency relationship management, committed credit  
6 facilities, securities and derivatives settlements and capital markets, including for  
7 asset-backed structured vehicles. Before that time, I was First Vice President,  
8 Treasury, of Salomon Smith Barney, Inc. after having served as Assistant Vice  
9 President, Risk Analysis and Management for Bank of America.

10

11 **Q. Have you reviewed the testimonies of Kathleen Abernathy, Executive Vice**  
12 **President, External Affairs, and Ken Mason, Vice President – Business**  
13 **Operations, both of Frontier, and how does your testimony relate to their**  
14 **testimonies?**

15 A. Yes, I have reviewed and agree with the testimonies of Ms. Abernathy and Mr.  
16 Mason. Ms. Abernathy's testimony addresses Frontier's managerial suitability, as  
17 well as related service issues and public interest issues in the application of  
18 Frontier to acquire The Southern New England Telephone Company ("SNET")  
19 from AT&T Inc. ("AT&T") (the "Transaction").<sup>1</sup> Mr. Mason's testimony  
20 addresses Frontier's technological suitability, operations, service quality, and  
21 related aspects of the Transaction. Their discussions of Frontier's qualifications

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<sup>1</sup> In the Transaction, Frontier will also acquire SNET America Inc. ("SAI"), which was formerly a certified local exchange carrier in Connecticut. SAI provides interstate interexchange and international calling and calling card services. SAI relinquished its Connecticut certification, and the relinquishment was approved by the Public Utilities Regulatory Authority ("PURA") in 2007.

1 and capabilities in the context of the Transaction are complementary and  
2 consistent with my testimony. My testimony focuses on the financial aspects of  
3 the Transaction and addresses Frontier's financial suitability to acquire SNET.  
4

5 **Q. Please summarize your testimony.**

6 A. My testimony will address the following areas and topics:  
7

- 8 • A summary of the Transaction with a focus on Frontier's financial  
9 rationale and key financial metrics;
- 10 • Commentary on how the Transaction will affect Frontier's capital  
11 structure and expected financial flexibility;
- 12 • A summary of the financial community's view of the Transaction,  
13 including the perspectives of the credit ratings agencies; and
- 14 • Summary comments about why the Transaction is important to customers,  
15 employees and the state of Connecticut in the creation of a financially  
16 stronger and focused wireline telecommunications operator.  
17

18 **II. FINANCIAL RATIONALE AND KEY FINANCIAL METRICS IN THE**  
19 **PROPOSED TRANSACTION**  
20

21 **Q. Please provide an overview of Frontier's current financial condition.**

22 A. Frontier is a financially sound full-service telecommunications provider with  
23 publicly-traded debt and equity securities. The Company's equity market  
24 capitalization exceeds \$4.6 billion, and the Company reports annual revenues of

1 more than \$4.8 billion based on the year ended December 31, 2013.<sup>2</sup> By way of  
2 background, as of year-end 2013, Frontier operates in 27 states and serves  
3 approximately 3.1 million customers, including 1.9 million broadband customers  
4 and 385,000 video customers.<sup>3</sup> As of December 31, 2013, Frontier had  
5 approximately 13,650 employees based entirely in the United States, including  
6 approximately 200 employees at the Company's headquarters in Connecticut.  
7 Frontier is a profitable company that meets expenses, invests in advanced  
8 communications infrastructure, and provides a return to its shareholders. In 2013,  
9 Frontier's adjusted earnings before interest, taxes, depreciation and amortization  
10 ("EBITDA") margin was approximately 47 percent.<sup>4</sup> Over the same period, the  
11 Company added more than 112,000 broadband customers and it generated more  
12 than \$862 million in free cash flow. Frontier's adjusted EBITDA in 2013 was  
13 just over \$2.2 billion. Since the second quarter of 2010 to December 31, 2013,  
14 Frontier improved its capital structure by reducing its net debt to EBITDA ratio  
15 from 4.04x to 3.23x.<sup>5</sup> For additional background information on the Company's  
16 current financial position, please see Frontier's 2013 Form 10-K, attached hereto  
17 as Exhibit RWS-3.

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<sup>2</sup> Exhibit RWS-1, Frontier Earnings Release, "Frontier Communications Reports 2013 Fourth Quarter and Full Year Results," February 24, 2014.

<sup>3</sup> Ex. RWS-1.

<sup>4</sup> *Id.*

<sup>5</sup> Since the announcement of the Transaction, Frontier released its fourth quarter financial results and reported that net debt to adjusted EBITDA had improved to 3.23x. See Exhibit RWS-2, Frontier Analyst Presentation, "Investor Update, Fourth Quarter 2013," February 24, 2014, slide 19.

1     **Q.     Can you provide an overview of the proposed Transaction?**

2     A.     Yes. On December 16, 2013, Frontier and AT&T Inc. (“AT&T”) entered into an  
3             agreement (the “Agreement”) whereby Frontier will purchase from AT&T all of  
4             the issued and outstanding capital stock of SNET free and clear of all  
5             encumbrances. The purchase price for the Transaction is \$2 billion, to be paid in  
6             cash, subject to certain adjustments for working capital. The closing on the sale  
7             will occur following receipt of necessary regulatory approvals and satisfaction or  
8             waiver of other closing conditions as set forth in the Agreement. Upon closing,  
9             Frontier will be the holding company and the sole stockholder of AT&T’s local  
10            exchange carrier (“LEC”) operations in Connecticut, and SNET will be a first-tier  
11            subsidiary of Frontier. SNET will be without debt when it is acquired by Frontier.

12

13    **Q.     What is Frontier’s plan for transitioning services from AT&T to Frontier’s**  
14       **operations?**

15    A.     The Transaction currently is expected to close during the second half of 2014.  
16             The preparatory work to convert the Connecticut operations to Frontier’s systems  
17             is expected to take approximately nine months from the date of the Agreement. It  
18             is the plan of Frontier and AT&T that the conversion of the SNET operations to  
19             Frontier’s systems will occur on or about October 1, 2014, contemporaneously  
20             with the closing of the Transaction. Ms. Abernathy and Mr. Mason testify more  
21             fully about the planned transition and conversion process.

22

1   **Q.     What assets and operations in Connecticut are to be acquired from AT&T by**  
2       **Frontier?**

3   A.    Upon consummation of the Transaction, Frontier will own SNET, including its  
4       incumbent LEC, retail broadband, and video businesses in Connecticut. These  
5       operations include approximately 900,000 access line customers (about 60 percent  
6       of which are residential switched and Voice-over-Internet-Protocol (“VoIP”)  
7       customers and about 40 percent of which are business customers); approximately  
8       415,000 broadband customers; and approximately 180,000 video customers. As  
9       part of the Transaction, all of AT&T’s wireless assets and certain enterprise-  
10      focused wireline assets will be retained by AT&T. After the Transaction is  
11      completed, Connecticut will continue to have multiple telecommunications  
12      carriers, including the wireless and enterprise operations that AT&T will retain in  
13      the State.

14  
15   **Q.     Please further describe and provide additional detail related to the financial**  
16       **expectations for SNET and implications for the Transaction.**

17   A.    The Transaction is strategic for Frontier and is based on attractive terms.  
18       Importantly, the Transaction is expected to be accretive to the Company’s free  
19       cash flow, as well as free cash flow per share in the first full year. The SNET  
20       operations are estimated to generate approximately \$1.3 billion in revenues in  
21       2014 on a pro forma basis, resulting in approximately \$338 million in estimated  
22       2014 pro forma EBITDA. In evaluating the Transaction, Frontier identified \$75  
23       million of AT&T-allocated costs that are not transferring to Frontier and that will



1 be eliminated immediately; based upon available information, we are confident  
2 that those costs will not be incurred by Frontier on Day 1 after the Transaction  
3 closes and going forward.<sup>6</sup> As such, Frontier will acquire 2014 pro forma Day 1  
4 EBITDA of approximately \$413 million. The \$2.0 billion purchase price implies  
5 an estimated 4.8x multiple of 2014 pro forma Day 1 EBITDA. Additionally,  
6 based upon available information, the Company expects to achieve another \$125  
7 million in annualized cost savings by the end of the third year of operation,  
8 resulting in \$200 million in total annualized cost synergies by the end of that  
9 period.<sup>7</sup> After these additional run-rate cost synergies are achieved, 2014  
10 estimated pro forma EBITDA rises to approximately \$538 million, implying a  
11 3.7x pro forma purchase price multiple. I note that Frontier has had experience  
12 both acquiring and operating significant telephone operations.<sup>8</sup> Therefore, based  
13 upon available information, Frontier is confident in its ability to deliver on these  
14 cost reduction plans, while ensuring high quality services. In addition, the  
15 Company has exceeded its cost synergy targets for past acquisitions, even while  
16 investing in new services. Most recently, Frontier exceeded its projected cost  
17 reductions by 30 percent in the much larger and more complex fourteen-state  
18 Verizon Communications Inc. (“Verizon”) transaction, and has increased  
19 broadband availability at the same time. The current Transaction is an increase in

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<sup>6</sup> Application, Ex. 6A (Frontier Press Release, December 17, 2013).

<sup>7</sup> *Id.*

<sup>8</sup> Most recently, in 2010, Frontier paid \$8.6 billion to acquire then integrate LEC operations of Verizon across 14 states, including communications assets serving the majority of West Virginia. The other states were Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, Wisconsin, and some rural California regions. The transaction was funded through \$5.3 billion in Frontier stock and \$3.3 billion in debt.

1 the scale of the Company's operations, without a diversion into unrelated  
2 activities, and improves the economies of its existing centralized functions.

3

4 **Q. How is the acquisition of the SNET operations expected to impact Frontier's**  
5 **financial performance?**

6 A. The Transaction is financially compelling and will strengthen Frontier by  
7 providing greater scale and geographic diversity of operations. The pro forma  
8 financial characteristics of the combined company demonstrate the rationale for  
9 the Transaction. The Transaction is expected to be accretive to the Company's  
10 free cash flow, as well as to free cash flow per share, in the first full year after  
11 closing, and improve the Company's dividend payout ratio. This is expected to  
12 reinforce the sustainability of the dividend, which is important as will be  
13 explained below, and it allows the Company additional flexibility in terms of  
14 capital expenditures and support for services.

15

16 The following table provides a summary of high-level service and financial  
17 metrics for Frontier on a standalone basis and pro forma for the proposed  
18 Transaction, excluding certain AT&T-allocated costs which are not transferring to  
19 Frontier.

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**TABLE 1: Summary Frontier Standalone and Pro Forma Financials**

Statistics	Frontier Standalone (9/30/13)	Frontier Pro Forma (2014E)
Revenue	\$4,814M	\$6,065M
EBITDA	\$2,242M	\$2,780M
CAPEX	\$661M	\$808M

*Source: Frontier Communications Investor Presentation, December 17, 2013.<sup>9</sup>*

**Q. Does Frontier anticipate additional costs and investments related to the integration of the SNET operations?**

A. As described in more detail by Ms. Abernathy and Mr. Mason, Frontier has committed to a prudent integration plan, with activities having already begun and expected to continue for a period after closing. The Company currently estimates \$225 million to \$275 million in operating expenses and capital expenditures related to integration in 2014-2015.

**Q. How does the price paid for SNET compare with the prices in recent transactions for similar companies?**

A. The agreed-upon price is fair, the Transaction strengthens the Company strategically, and investors will be assured by stable and improving financial metrics. This will allow the Company to invest in the LEC operations in Connecticut and in innovation and growth in the business in the future. As discussed above, Frontier is paying an enterprise value ("EV") to estimated 2014

<sup>9</sup> Application, Ex. 6B (Frontier Investor Presentation, December 17, 2013), slide 15.

1 pro forma Day 1 adjusted EBITDA purchase price multiple that is 4.8x.<sup>10</sup> By  
2 comparison, as of March 7, 2014 according to Yahoo Finance, Frontier's  
3 EV/EBITDA multiple, based on its market capitalization and December 31, 2013  
4 balance sheet, was approximately 5.5x, while CenturyLink Inc.'s ("CenturyLink")  
5 multiple was 5.3x and Windstream Holdings, Inc.'s ("Windstream") was 5.7x.  
6 Recent transactions involving the purchase of other LECs support Frontier's  
7 belief that the acquisition price is attractive. The table below provides additional  
8 perspective.<sup>11</sup> For purchase price multiples from transactions since 2008, the  
9 median transaction multiple is 5.2x for all of the six larger transactions in that  
10 period and is 5.9x after excluding the tax-advantaged deals. In short, Frontier is  
11 confident that the purchase price for the Transaction is attractive, resulting in a  
12 financially sound operator, thereby benefiting the combined company's  
13 Connecticut customers, employees and other stakeholders.

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<sup>10</sup> The EBITDA used is based on the exclusion of \$75 million in previously-allocated AT&T overhead costs. See Application, Ex. 6B, slide 6.

<sup>11</sup> The FairPoint-Verizon transaction employed a Reverse Morris Trust that benefited Verizon, meaning that Verizon derived economic benefit from avoided taxes. This was also the case in the Frontier-Verizon transaction in 2009. The CenturyLink-Embarq and CenturyLink-Qwest transactions were stock-for-stock and therefore were not taxable.

**TABLE 2: Recent Transactional Valuation Multiples<sup>12</sup>**

	Date	2006 - Present		2008 - Present	
		EV/EBITDA	Excluding tax-affected	EV/EBITDA	Excluding tax-affected
FTR-CTCO	9/18/06	6.7x	6.7x		
CTL-Madison River	12/18/06	8.4x	8.4x		
FRP-VZ	1/16/07	6.3x			
WIN-CTCI	5/29/07	10.1x	10.1x		
CNSL-NPSI	7/2/07	7.6x	7.6x		
CTL-EQ	10/27/08	4.5x		4.5x	
WIN-DECC	5/11/09	5.2x	5.2x	5.2x	5.2x
FTR-VZ	5/13/09	4.5x		4.5x	
WIN-Lexcom	9/8/09	5.9x	5.9x	5.9x	5.9x
CTL-Q	4/22/10	5.1x		5.1x	
CNSL-SURW	2/6/12	6.3x	6.3x	6.3x	6.3x
<i>Average</i>		6.4x	7.2x	5.3x	5.8x
<i>Median</i>		6.3x	6.7x	5.2x	5.9x

*Source: Charlesmead Advisors, LLC*

### **III. COMMENTARY ON HOW THIS TRANSACTION WILL BE FINANCED AND THE EFFECT ON FRONTIER'S BALANCE SHEET AND EXPECTED FINANCIAL FLEXIBILITY**

#### **Q. How will the Transaction be financed?**

A. Frontier has agreed to pay \$2.0 billion for the Transaction. In order to ensure that the closing of the Transaction is not contingent on financing, on January 29, 2014, Frontier entered into a \$1.9 billion Bridge Credit Agreement with certain lenders, led by JPMorgan Chase Bank, with rates to be defined based on market conditions.<sup>13</sup> It is Frontier's plan to fund the Transaction using new debt raised in the public markets prior to the Transaction closing, ultimately expected to be in

<sup>12</sup> Source; Charlesmead Advisors, LLC.

<sup>13</sup> JPMorgan Chase Bank, N.A., is the Administrative Agent; J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and Morgan Stanley Senior Funding, Inc., are Lead Arrangers and Joint Bookrunners; Citibank, N.A., Morgan Stanley Senior Funding, Inc., are Syndication Agents; Barclays Bank PLC, Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and RBS Securities Inc. are Documentation Agents. See Application, Ex. 5.

1 the form of senior unsecured notes, and approximately \$100 million of existing  
2 cash, but with the Bridge Credit Agreement in place to provide an assured source  
3 of funding should the public markets not be an available source of funding.  
4 Existing cash, coupled with ongoing free cash flow generation, will be used to  
5 support the Transaction and integration costs during the period prior to the  
6 Transaction closing. There is no financing contingency. Frontier is a known and  
7 seasoned issuer of public market debt, and ongoing access to the capital markets,  
8 as a supplement to free cash flow from operations, will help ensure that the  
9 Company has the necessary financial resources to continue to provide excellent  
10 service to Connecticut customers. Additionally, as of December 31, 2013,  
11 Frontier had \$880 million of unrestricted cash and a \$750 million unsecured  
12 revolving credit line that is undrawn and fully available for general operating  
13 purposes.

14  
15 **Q. What will be the effect of the Transaction on Frontier's balance sheet and**  
16 **liquidity?**

17 A. The leverage impact of the Transaction is modest and manageable. Frontier  
18 estimates that its net debt to pro forma adjusted EBITDA leverage ratio will  
19 increase by only 0.4x at the closing. As noted above, the net debt to adjusted  
20 EBITDA was reported at the end of 2013 to be 3.23x. In addition, the Company's  
21 liquidity remains strong. Frontier continues to forecast free cash flow generation  
22 from its existing operations and, as stated, the Transaction is expected to further  
23 increase free cash flow.

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**Q. How does Frontier’s financial strength compare with that of other similar telecommunications carriers?**

A. Frontier compares favorably with similar telecommunications carriers in terms of financial strength. The table below provides perspective regarding certain of Frontier’s equity and leverage metrics in comparison with other LECs.<sup>14</sup> As indicated in the table, Frontier’s dividend payout ratio (defined as the annualized dividend payment divided by estimated pro forma 2014 levered free cash flow) is lower than most of the dividend-paying carriers in the table, and Frontier’s payout ratio is expected to be reduced within the first year after the Transaction.<sup>15</sup> The payout ratio is a measure of Frontier’s ability to pay dividends to its equity investors while maintaining flexibility in terms of operating cash flows available for other uses. The table also indicates that Frontier’s leverage is currently in line with its peers. At closing, the Company’s net debt to latest twelve months estimated pro forma EBITDA is expected to rise by 0.4x.<sup>16</sup>

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<sup>14</sup> This comparison includes Alaska Communications Systems Group, which does have a significant wireless partnership with General Communications Group in Alaska, but the company is otherwise regarded as a comparable carrier. AT&T and Verizon are not similar as a large percentage of their business is derived from wireless services, and both carriers are benefiting from revenue growth in wireless and equity capital appreciation driven by that growth.  
<sup>15</sup> Application, Ex. 6B, slide 8.  
<sup>16</sup> *Id.*, slide 16.

**TABLE 3: Comparable Company Payout and Leverage Ratios**

	<b>2014E dividend payout ratio (9/30/13)</b>	<b>Total debt/LTM 9/30/13 EBITDA</b>	<b>Net debt/LTM 9/30/2013 EBITDA</b>
<i>Frontier (w/o SNET)</i>	52.7%	3.6x	3.3x
<i>CenturyLink</i>	47.2%	2.7x	2.7x
<i>Windstream</i>	66.5%	3.7x	3.7x
<i>Consolidated Coms.</i>	141.3%	4.1x	4.1x
<i>Alaska Coms.</i>	N/A	3.7x	3.3x
<i>Lumos</i>	116.1%	4.0x	3.3x
<i>Median</i>	66.5%	3.7x	3.3x

*Source: JP Morgan and Yahoo Finance*

**A. Can you comment further about the dividend?**

**Q.** Yes. Frontier's current dividend payout policy is reasonable and appropriate. Table 3 above indicates that Frontier's dividend policy, as established by the Company's board of directors, has been and, we expect it will continue to be, prudent in maintaining this important source of financial strength while retaining flexibility to reinvest cash back into the business.

**A. How will Frontier prioritize investing in its business and network relative to paying the dividend?**

**Q.** Frontier's management stated on the day the Transaction was announced that its top priority for the use of its cash flow is to continue to invest appropriately in improving and maintaining its advanced communications network. In management's opinion, the network is a primary asset for the Company and, as such, the network will come first in capital allocation decisions. Sustaining the



1 dividend is important, but it is secondary to the network and business. With the  
2 incremental free cash flow that the Transaction generates on a pro forma basis for  
3 Frontier, the Transaction both provides significant flexibility for continued  
4 investment in the network and improves the sustainability of the dividend.<sup>17</sup>

5  
6 **IV. SUMMARY OF THE FINANCIAL COMMUNITY'S VIEW OF THE**  
7 **TRANSACTION, INCLUDING THE CREDIT RATING AGENCIES**

8  
9 **Q. How do the credit rating agencies view the Transaction?**

10 A. On the day the Transaction was announced, Standard & Poor's Ratings Services  
11 ("S&P") published a brief note indicating that its ratings and outlook were not  
12 immediately affected, in part because Frontier's "pro forma net debt to EBITDA  
13 is around 3.7x, which is only modestly higher than our 2013 estimated leverage of  
14 3.5x."<sup>18</sup> We note parenthetically that we announced our expectation that the ratio  
15 will rise by 0.4x, and our more recent financial report as of the end of 2013,  
16 indicated that the ratio was 3.23x. S&P also noted that the Transaction improves  
17 the Company's scale, the potential synergies are meaningful, and integration risk  
18 would be substantially lower than in the Verizon acquisition. That same day,

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<sup>17</sup> Exhibit RWS-4, Transcript of Call with Investors, "Acquisition of Wireline Business and Statewide Fiber Network from AT&T by Frontier Communications Co," FACTSET: CallStreet, December 17, 2013, at 11: "John Jureller – Frontier Communications Corp.: I think we have . . . priorities around our cash flow rather than a target per se . . . we want to make sure that we are continuing to invest appropriately in our network . . . that is built and is strong, it's a primary asset for the company. And then we sustain our dividend, that's very important for our shareholders. We're going to continue to make sure that that's in place. And then we're going to take our excess cash flow. We'll also pay our current maturities and then take any excess beyond that and look at what are the other opportunities within the capital structure, whether it's an accelerated paydown of debt or other things. So those priorities remain in place, they've been our priorities and will continue to be."

<sup>18</sup> Exhibit RWS-5, Standard & Poor's Ratings Services, RatingsDirect, "Frontier Communications Corp. Ratings Are Unaffected By Its Plan To Buy AT&T's Connecticut Wireline Business," December 17, 2013, at 1. The note concludes "We will evaluate recovery ratings for Frontier's debt issues once we have more specific information on the capital structure of the company, pro forma for the acquisition."

1 Moody's Investors Service ("Moody's") placed the ratings of Frontier on review  
2 for downgrade, but did not revise its ratings pending the completion of its  
3 review.<sup>19</sup> The following day, Fitch Ratings ("Fitch") downgraded Frontier's  
4 credit rating to 'BB' from 'BB+' and revised its outlook to Stable from Negative.<sup>20</sup>  
5 Given the prior Negative outlook, the Company believes that the downgrade by  
6 Fitch was predictable and was principally based on the increase in Frontier's pro  
7 forma net leverage as a result of the Transaction.

8

9 **Q. How do you view the perspectives of the credit ratings agencies?**

10 A. The Transaction consideration is in cash, and Frontier will fund the purchase by  
11 issuing new debt. As a result, Frontier's estimated pro forma leverage ratio (net  
12 debt to EBITDA) at the close of the Transaction is expected to rise modestly by  
13 approximately 0.4x. The ratings agencies' comments generally are focused on  
14 this increase in the leverage ratio that S&P has rightly described as "modestly  
15 higher."<sup>21</sup> Moody's cited what it perceives as a "departure from Frontier's prior  
16 stated conservative financial policy and discipline which . . . was centered around  
17 debt reduction."<sup>22</sup> We would respond that, rather than changing its long-term  
18 policy and discipline, Frontier is making a strategic decision that includes higher  
19 levels of debt in the near term to acquire the SNET operations. More importantly,  
20 the Company believes firmly that its performance in integrating and operating

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<sup>19</sup> Exhibit RWS-6, Moody's Investors Service, "Rating Action" Moody's places Frontier's Ba2 corporate family rating on review for downgrade," December 17, 2013.

<sup>20</sup> Exhibit RWS-7, FitchRatings, "Fitch Downgrades Frontier Communications' IDR to 'BB': Outlook revised to Stable," December 18, 2013 .

<sup>21</sup> Ex. RWS-5, at 1.

<sup>22</sup> Ex. RWS-6, at 1.

1 SNET will make Frontier a stronger company with a better credit profile over  
2 time. Fitch confirms Frontier’s strategic rationale for the Transaction, which is  
3 “increased scale . . . improved free cash flow . . . [and the fact that the] assets  
4 being acquired will not require material additional capital spending given past  
5 network upgrades by AT&T.”<sup>23</sup> Fitch also states that Frontier should be able to  
6 manage debt maturities through at least 2016 without additional borrowings (thus  
7 reducing leverage through the use of cash and free cash flow) and that the  
8 Company has ample liquidity. We agree with Fitch’s assessments.

9

10 **Q. What was the opinion of the equity analysts regarding the Transaction?**

11 A. To the best of my knowledge, no financial analyst who covers Frontier’s stock  
12 downgraded his/her equity rating as a result of the Transaction. However,  
13 virtually all of the analysts highlighted that the acquisition likely will generate  
14 positive results for Frontier’s pro forma operations and for the owners of the  
15 Company’s stock. Specifically, the equity analysts noted that the pro forma  
16 combined company should generate more free cash flow and improve Frontier’s  
17 dividend payout ratio. Morgan Stanley’s Simon Flannery was representative:

18 “We believe this transaction is positive for the company, given the  
19 additional support for the dividend and the reasonable multiple. Frontier  
20 has a strong track record of integrating acquired properties, delivering  
21 \$650M of synergies from the Verizon lines (v. initial guide of \$500M),

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<sup>23</sup> Ex. RWS-7, at 1.

1 and plans to launch additional products such as Frontier Secure throughout  
2 the state.”<sup>24</sup>

3 John Hodulik at UBS Global Research provided a similar opinion, while  
4 maintaining his Buy rating on the stock:

5 “We believe the opportunity for Frontier will be to stabilize revenues, cut  
6 cost [sic] and improve FCF [free cash flow]. We estimate the deal will be  
7 12% accretive to FCF on Day 1 (exc. synergies), lowering the dividend  
8 payout to 49% from an estimated 55% in 2014. Mgmt noted the priorities  
9 for use of cash are network investment and dividend coverage . . .”<sup>25</sup>

10  
11 **V. THE TRANSACTION IS IMPORTANT TO CUSTOMERS, EMPLOYEES**  
12 **AND THE STATE OF CONNECTICUT BECAUSE IT CREATES A**  
13 **FINANCIALLY STRONGER AND FOCUSED WIRELINE**  
14 **TELECOMMUNICATIONS OPERATOR**  
15

16 **Q. What is the strategic benefit of the Transaction for key stakeholders in the**  
17 **State of Connecticut?**

18 A. Frontier is operating in a highly competitive telecommunications industry today.  
19 From a financial perspective, the Company is focused on generating improving  
20 cash flows through a broader and richer set of products—broadband, video, voice,  
21 integrated communications, and enhanced services to wholesale/business/retail  
22 customers. The evolving product portfolio is possible because of Frontier’s focus  
23 on the best and most effective communications technologies and on an ongoing

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<sup>24</sup> Exhibit RWS-8, Simon Flannery, “Frontier Communications Corp Quick Comment: Accretive Acquisition in the Home State,” Morgan Stanley, December 17, 2013, at 1.

<sup>25</sup> Exhibit RWS-9, John Hodulik and Batya Levi, “Frontier Communications Corp, Adding to scale with an accretive deal,” UBS Global Research, December 17, 2013, at 1.

1       disciplined approach to capital investment. The SNET acquisition provides  
2       Frontier with more scale, improved cash flows, opportunity to provide U-verse  
3       and other broadband and video services, and a concentration of high-quality  
4       personnel in the state of Connecticut.

5  
6       **Q. Will Frontier be able to maintain the level of service provided by AT&T in**  
7       **Connecticut?**

8       A. The Company is confident that it will be able to provide improved wireline  
9       communication services in Connecticut. Frontier does not have wireless  
10      operations or international commitments that compete for its management  
11      attention or for its capital resources. Frontier accomplishes its strategic goals only  
12      if the Company meets the needs of its wireline telecommunications customers. I  
13      reaffirm the assertions of Ms. Abernathy and Mr. Mason regarding Frontier's  
14      singular strategic focus. My responsibility is to assure access to the financial  
15      capital required to provide the ability for the Company to invest in continually  
16      improving Frontier's wired network-based services.

17  
18      **Q. Can you summarize your testimony?**

19      A. Yes. My testimony has highlighted Frontier's capital resources, the reasonable  
20      price to be paid for the Transaction, the financial metrics that support the fact that  
21      Frontier has a sound financial strategic set of goals, and the Company's proven  
22      commitment to providing high-quality products and services over advanced  
23      communications network infrastructure. In addition, Frontier relies on a long

1 history in which it has proven to be a financially and operationally responsible  
2 corporate citizen in the 27 states in which it currently operates. Frontier is  
3 financially suitable and responsible to acquire SNET and serve the interests of the  
4 State of Connecticut, the citizens, the businesses, residential customers, wholesale  
5 carriers, and the SNET employees.

6

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, thank you.



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Frontier Communications Reports 2013 Fourth Quarter and Full Year Results (NYSE:FTR)

February 24, 2014

## Frontier Communications Reports 2013 Fourth Quarter and Full Year Results

STAMFORD, Conn.--(BUSINESS WIRE)-- Frontier Communications Corporation (NASDAQ:FTR):

	Q4 2013	Full Year 2013
Strong broadband net additions	27,800	112,250
Residential customer retention improvement	10%	61%
Sustained operating margin	48%	47%
Attractive dividend payout ratio	40%	46%

- 2013 full year free cash flow of \$862.5 million within the stated guidance range
- 2014 free cash flow guidance of \$725 million to \$775 million, excluding pending AT&T Connecticut acquisition

Frontier Communications Corporation (NASDAQ:FTR) today reported fourth quarter 2013 revenue of \$1,180.4 million, operating income of \$257.6 million and net income attributable to common shareholders of \$67.8 million, or \$0.07 per share. Excluding acquisition and integration costs of \$9.7 million, pension settlement costs of \$3.9 million, severance costs of \$2.1 million and acquisition related interest expense of \$1.3 million, partially offset by discrete tax items of \$6.2 million (combined impact of \$4.4 million after tax), non-GAAP adjusted net income attributable to common shareholders for the fourth quarter of 2013 is \$72.2 million, or \$0.07 per share.

"We are very pleased with the consistent positive results we delivered every quarter in 2013," said Maggie Wilderotter, Frontier's Chairman and Chief Executive Officer. "Frontier delivered record broadband net additions of 112,250 for the year and our quarterly revenue declines improved substantially from 2012. Customer retention, average revenue per customer and broadband market share all increased in 2013 and we implemented network improvements and cost efficiencies to sustain this positive operating trend in 2014."

Dan McCarthy, Frontier's President and Chief Operating Officer added, "We expanded Frontier's capabilities and services over the course of 2013, we had terrific broadband subscriber net additions and gained share in our business segment. Our expense reductions resulted in maintaining strong operating margins while making targeted investments across the business and improving customer retention. Our momentum has continued into 2014, and we have substantial runway for continued broadband penetration gains."

Maggie Wilderotter concluded, "For 2013, our total shareholder return was among the highest in the telecom sector, and all of our employees are committed to driving shareholder value. We enter 2014 with a very competitive dividend that is supported by an attractive payout ratio. We are looking forward to the closing of the AT&T Connecticut transaction in the second half which is expected to increase our free cash flow and improve our dividend payout ratio."

**Revenue** for the fourth quarter of 2013 was \$1,180.4 million as compared to \$1,185.3 million in the third quarter of 2013 and \$1,232.6 million in the fourth quarter of 2012. Total revenue for the fourth quarter of 2013 declined sequentially by \$4.9 million, or 0.4%, from the third quarter of 2013. The decrease in total revenue during the fourth quarter of 2013 is primarily due to lower voice revenue, along with lower non-switched and switched access revenue, partially offset by the increase in data services revenue and subsidy revenue.

**Customer revenue** for the fourth quarter of 2013 of \$1,044.9 million declined 0.5% sequentially as compared to \$1,050.1 million in the third quarter of 2013. Total **residential revenue** was \$503.1 million for the fourth quarter of 2013 as compared to \$506.1 million in the third quarter of 2013, a 0.6% sequential decrease in the quarter. Total **business revenue** was \$541.8 million for the fourth quarter of 2013 as compared to \$544.0 million in the third quarter of 2013, a 0.4% decline in the quarter.

At December 31, 2013, the Company had 2,803,500 **residential customers** and 270,800 **business customers**. For the year ended December 31, 2013, the Company improved the rate of decline in residential customers by 61% as compared to the prior year. The fourth quarter of 2013 resulted in a 10% sequential quarterly improvement, reflecting a loss of 18,700 customers as compared to 20,700 customers in the three months ended September 30, 2013 and 45,100 customers in the three months ended December 31, 2012. The average monthly residential revenue per customer was \$59.62 in the fourth quarter of 2013, an improvement of \$0.06 as compared to \$59.56 in the third quarter of 2013.

During the three months ended December 31, 2013, the Company improved the rate of decline in business customers by 27% as compared to the prior year, losing approximately 3,900 customers as compared to 5,300 customers in the three months ended December 31, 2012 and 3,500 customers in the three months ended September 30, 2013. During the most recent quarter, the average monthly business revenue per customer was \$662.15, or 1% higher than the third quarter of 2013.

The Company's **broadband customer** net additions were 27,800 during the fourth quarter of 2013, which was the fourth consecutive quarter that exceeded the total 23,400 net additions in all of 2012. During 2013, the Company's net additions of broadband customers were



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112,250 for the full year. The Company had 1,866,700 broadband customers at December 31, 2013. The Company added 7,400 net video customers during the fourth quarter of 2013. The Company had 385,400 **video customers** at December 31, 2013.

**Network access expenses** for the fourth quarter of 2013 were \$110.6 million as compared to \$104.0 million in the third quarter of 2013 and \$108.5 million in the fourth quarter of 2012.

**Other operating expenses** for the fourth quarter of 2013 were \$516.4 million as compared to \$549.1 million in the third quarter of 2013 and \$570.7 million in the fourth quarter of 2012. Included in other operating expenses were severance costs of \$2.1 million, \$2.6 million and \$17.2 million in the fourth quarter of 2013, the third quarter of 2013 and the fourth quarter of 2012, respectively. Other operating expenses, excluding severance costs, in the fourth quarter of 2013 were lower than in the fourth quarter of 2012 by \$39.2 million, primarily due to decreased compensation costs resulting from reduced headcount, lower outside service costs and lower storm related costs.

Also, during the third and fourth quarters of 2013, the Company recorded non-cash **pension settlement costs** of \$40.3 million and \$3.9 million, respectively, for the accelerated recognition of a portion of the previously unrecognized actuarial losses in the Company's pension plan as a result of the significant level of lump sum retirement benefit payments made during 2013.

**Depreciation and amortization** for the fourth quarter of 2013 was \$282.3 million as compared to \$285.7 million in the third quarter of 2013 and \$304.0 million in the fourth quarter of 2012. Amortization expense decreased by \$11.2 million in the fourth quarter of 2013 as compared to the fourth quarter of 2012, primarily due to lower amortization related to the customer base that is amortized on an accelerated method.

**Acquisition and integration costs** of \$9.7 million (\$0.01 per share after tax) were incurred during the fourth quarter of 2013 in connection with the pending AT&T Connecticut transaction, as previously announced on December 17, 2013, as compared to approximately \$13.5 million (\$0.01 per share after tax) in the fourth quarter of 2012 in connection with the final integration work associated with the properties acquired from Verizon in July 2010.

**Operating income** for the fourth quarter of 2013 was \$257.6 million and operating income margin was 21.8 percent as compared to operating income of \$206.2 million and operating income margin of 17.4 percent in the third quarter of 2013 and operating income of \$235.7 million and operating income margin of 19.1 percent in the fourth quarter of 2012.

**Interest expense** for the fourth quarter of 2013 was \$165.6 million as compared to \$163.8 million in the third quarter of 2013, and \$178.9 million in the fourth quarter of 2012. Interest expense declined, as compared to the fourth quarter of 2012, primarily due to lower average debt levels resulting from the debt refinancing activities and debt retirements during 2013.

**Income tax expense** for the fourth quarter of 2013 was \$24.3 million as compared to \$9.5 million in the fourth quarter of 2012, an \$14.8 million increase, principally due to higher pretax income resulting from improved operating income, the absence of losses on debt retirement and lower interest expense, as discussed above. The Company had an effective tax rate for the fourth quarter of 2013 and 2012 of 26.4% and 24.5%, respectively. The fourth quarter of 2013 includes discrete tax items arising from changes in certain deferred tax balances, federal research and development tax credits, non-deductible transaction costs and the net reversal of uncertain tax positions with a combined impact of \$6.2 million in reduced income tax expense.

**Net income attributable to common shareholders of Frontier** was \$67.8 million, or \$0.07 per share, in the fourth quarter of 2013, as compared to \$24.9 million, or \$0.02 per share, in the fourth quarter of 2012. The fourth quarter of 2013 includes acquisition and integration costs of \$9.7 million, pension settlement costs of \$3.9 million, severance costs of \$2.1 million and acquisition related interest expense of \$1.3 million, partially offset by discrete tax items of \$6.2 million (combined impact of \$4.4 million after tax). Excluding the impact of the aforementioned items, non-GAAP adjusted net income attributable to common shareholders of Frontier for the fourth quarter of 2013 would be \$72.2 million, or \$0.07 per share, as compared to \$56.5 million, or \$0.06 per share, in the third quarter of 2013 and \$57.0 million, or \$0.06 per share, in the fourth quarter of 2012.

**Capital expenditures** for Frontier business operations were \$150.6 million for the fourth quarter of 2013 and \$634.7 million for the full year of 2013, as compared to \$177.3 million in the fourth quarter of 2012 and \$748.4 million for the full year of 2012. This was in line with the Company's guidance, following a higher amount of investment in 2012 from broadband expansion in the acquired properties.

**Operating cash flow**, as adjusted and defined by the Company in the attached Schedule A, was \$570.2 million for the fourth quarter of 2013 resulting in an operating cash flow margin of 48.3%. Operating cash flow, as reported, of \$539.8 million has been adjusted to exclude \$3.9 million of pension settlement costs, \$2.1 million of severance costs, \$9.7 million of acquisition and integration costs and \$14.7 million of non-cash pension and other postretirement benefit costs.

**Free cash flow**, as defined by the Company in the attached Schedule A, was \$248.2 million for the fourth quarter of 2013 and \$862.5 million for the full year of 2013. The Company's dividend represents a payout of 40% of free cash flow for the fourth quarter of 2013 and 46% for the full year of 2013.

#### Working Capital

At December 31, 2013, the Company had a working capital surplus of \$317.3 million, which includes the classification of certain debt maturing in the second quarter of 2014 of \$214.4 million as a current liability.

#### Pension Contributions

The Company made total contributions to its pension plan for 2013 of \$62.3 million, consisting of cash payments of \$38.9 million and contributions of real property with a fair value of \$23.4 million. We expect that we will make contributions to our pension plan of approximately \$100 million in 2014.



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**2014 Guidance**

For the full year of 2014, the Company's expectations for **capital expenditures** and **free cash flow** for Frontier business operations are within a range of \$575 million to \$625 million and \$725 million to \$775 million, respectively. The Company expects that absent any further legislative changes in 2014, its 2014 **cash taxes** will be in the range of \$130 million to \$160 million. Acquisition and integration costs for the pending AT&T Connecticut transaction are excluded from this guidance. We expect to incur additional operating expenses of \$140 million to \$170 million and capital expenditures of \$85 million to \$105 million in 2014 related to acquisition and integration activities in connection with the pending AT&T Connecticut transaction.

**Non-GAAP Measures**

The Company uses certain non-GAAP financial measures in evaluating its performance. These include non-GAAP adjusted net income attributable to common shareholders of Frontier, free cash flow, operating cash flow and adjusted operating cash flow. A reconciliation of the differences between non-GAAP adjusted net income attributable to common shareholders of Frontier, free cash flow, operating cash flow and adjusted operating cash flow and the most comparable financial measures calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definition not measures of financial performance under GAAP, and are not alternatives to operating income or net income attributable to common shareholders of Frontier as reflected in the statement of operations or to cash flow as reflected in the statement of cash flows, and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures of other companies.

The Company believes that the presentation of non-GAAP financial measures provides useful information to investors regarding the Company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the Company's core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the Company and its results of operations. In addition, the Company believes that non-GAAP adjusted net income attributable to common shareholders of Frontier, free cash flow, operating cash flow and adjusted operating cash flow, as the Company defines them, can assist in comparing performance from period to period, without taking into account factors affecting operating income or net income attributable to common shareholders of Frontier in the statement of operations, or cash flow reflected in the statement of cash flows, including changes in working capital and the timing of purchases and payments. The Company has shown adjustments to its financial presentations to exclude losses on early extinguishment of debt, gain on sale of Mohave partnership interest, investment gains, discrete tax items, acquisition and integration costs, acquisition related interest expense, severance costs, pension settlement costs and non-cash pension and other postretirement benefit costs, as disclosed in the attached Schedules A and B, because investors have indicated to management that such adjustments are useful to them in assessing the Company and its results of operations.

Management uses these non-GAAP financial measures to (i) assist in analyzing the Company's underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and (v) assist management in understanding the Company's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures.

These non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments and dividends are not deducted in determining such measure. Operating cash flow has similar shortcomings as interest, income taxes, capital expenditures, debt repayments and dividends are not deducted in determining this measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. The information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents filed with the U.S. Securities and Exchange Commission.

**Conference Call and Webcast**

The Company will host a conference call today at 4:30 P.M. Eastern time. In connection with the conference call and as a convenience to investors, the Company furnished today on a Current Report on Form 8-K certain materials regarding fourth quarter 2013 results. The conference call will be webcast and may be accessed at:

<http://investor.frontier.com/events.cfm>

A telephonic replay of the conference call will be available for one week beginning at 7:30 P.M. Eastern time, Monday, February 24, 2014 via dial-in at 888-203-1112 for U.S. and Canadian callers or, outside the United States and Canada, at 719-457-0820, passcode 8066138. A webcast replay of the call will be available at [www.frontier.com/ir](http://www.frontier.com/ir).

**About Frontier Communications**

Frontier Communications Corporation (NASDAQ: FTR) offers broadband, voice, satellite video, wireless Internet data access, data security solutions, bundled offerings and specialized bundles for residential customers, small businesses and home offices, and advanced communications for medium and large businesses in 27 states. Frontier's approximately 13,650 employees are based entirely in the United States. More information is available at [www.frontier.com](http://www.frontier.com) and [www.frontier.com/ir](http://www.frontier.com/ir).

**Forward-Looking Statements**

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking



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statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties include, but are not limited to: our ability to complete the acquisition of the Connecticut operations from AT&T; the ability to successfully integrate the Connecticut operations of AT&T into our existing operations; the risk that the growth opportunities and cost savings from the AT&T Transaction may not be fully realized or may take longer to realize than expected; the sufficiency of the assets to be acquired from AT&T to enable the combined company to operate the acquired business; failure to enter into or obtain, or delays in entering into or obtaining, certain agreements and consents necessary to operate the acquired business as planned; the failure to obtain, delays in obtaining or adverse conditions contain in any required regulatory approvals for the AT&T Transaction; the effects of increased expenses incurred due to activities related to the AT&T Transaction; disruption from the AT&T Transaction making it more difficult to maintain relationships with customers or suppliers; the effects of greater than anticipated competition from cable, wireless and other wireline carriers that could require us to implement new pricing, marketing strategies or new product or service offerings and the risk that we will not respond on a timely or profitable basis; reductions in the number of our voice customers that we cannot offset with increases in broadband subscribers and sales of other products and services; our ability to maintain relationships with customers, employees or suppliers; the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, or changes in the enforcement or interpretation of such legislation and regulation; the effects of any unfavorable outcome with respect to any current or future legal, governmental or regulatory proceedings, audits or disputes; the effects of changes in the availability of federal and state universal service funding or other subsidies to us and our competitors; our ability to successfully adjust to changes in the communications industry and to implement strategies for growth; continued reductions in switched access revenues as a result of regulation, competition or technology substitutions; our ability to effectively manage service quality in our territories and meet mandated service quality metrics; our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to customers; the effects of changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations; our ability to effectively manage our operations, operating expenses and capital expenditures, and to repay, reduce or refinance our debt; the effects of changes in both general and local economic conditions on the markets that we serve, which can affect demand for our products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures related to new construction of residences and businesses; the effects of technological changes and competition on our capital expenditures, products and service offerings, including the lack of assurance that our network improvements in speed and capacity will be sufficient to meet or exceed the capabilities and quality of competing networks; the effects of increased medical expenses (including as a result of the impact of the Patient Protection and Affordable Care Act) and pension and postemployment expenses, such as retiree medical and severance costs, and related funding requirements; the effects of changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments; our ability to successfully renegotiate union contracts; changes in pension plan assumptions and/or the value of our pension plan assets which could require us to make increased contributions to the pension plan in 2014 and beyond; the effects of economic downturns, including customer bankruptcies and home foreclosures, which could result in difficulty in collection of revenues and loss of customers; adverse changes in the credit markets or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing to us; our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes and liquidity may affect our payment of dividends on our common shares; the effects of state regulatory cash management practices that could limit our ability to transfer cash among our subsidiaries or dividend funds up to the parent company; and the effects of severe weather events such as hurricanes, tornadoes, ice storms or other natural or man-made disasters. These and other uncertainties related to our business are described in greater detail in our filings with the U.S. Securities and Exchange Commission, including our reports on Forms 10-K and 10-Q, and the foregoing information should be read in conjunction with these filings. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

## Frontier Communications Corporation

## Consolidated Financial Data

	For the quarter ended			For the year ended	
	December 31,	September 30,	December 31,	December 31,	
	2013	2013	2012	2013	2012
<i>(\$ in thousands, except per share amounts)</i>					
<b>Income Statement Data</b>					
Revenue	\$ 1,180,369	\$ 1,185,278	\$ 1,232,553	\$4,761,576	\$5,011,853
Operating expenses:					
Network access expenses	110,606	103,955	108,535	431,073	441,588
Other operating expenses <sup>(1)</sup>	516,413	549,141	570,711	2,141,068	2,234,553
Depreciation and amortization	282,275	285,701	304,044	1,169,500	1,266,807
Pension settlement costs <sup>(2)</sup>	3,854	40,309	-	44,163	-
Acquisition and integration costs <sup>(3)</sup>	9,652	-	13,533	9,652	81,737
Total operating expenses	922,800	979,106	996,823	3,795,456	4,024,685
Gain on sale of Mohave partnership interest	-	-	-	14,601	-
Operating income	257,569	206,172	235,730	980,721	987,168

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Losses on early extinguishment of debt	-	-	19,300	159,780	90,363
Investment and other income, net	43	1,524	1,138	9,177	20,132
Interest expense	165,596	163,835	178,881	667,398	687,985
Income before income taxes	92,016	43,861	38,687	162,720	228,952
Income tax expense	24,261	8,461	9,488	47,242	75,638
Net income (2)(3)	67,755	35,400	29,199	115,478	153,314
Less: Income attributable to the noncontrolling interest in a partnership	-	-	4,320	2,643	16,678
<b>Net income attributable to common shareholders of Frontier</b>	<b>\$ 67,755</b>	<b>\$ 35,400</b>	<b>\$ 24,879</b>	<b>\$ 112,835</b>	<b>\$ 136,636</b>
Weighted average shares outstanding	993,245	993,115	991,316	992,659	990,537
<b>Basic net income per common share attributable to common shareholders of Frontier (4)</b>	<b>\$ 0.07</b>	<b>\$ 0.04</b>	<b>\$ 0.02</b>	<b>\$ 0.11</b>	<b>\$ 0.14</b>
<b>Non-GAAP adjusted net income per common share attributable to common shareholders of Frontier (4)(5)</b>	<b>\$ 0.07</b>	<b>\$ 0.06</b>	<b>\$ 0.06</b>	<b>\$ 0.24</b>	<b>\$ 0.26</b>
<b>Other Financial Data</b>					
Capital expenditures - Business operations	\$ 150,603	\$ 157,560	\$ 177,300	\$ 634,685	\$ 748,407
Capital expenditures - Integration activities	-	-	15,329	-	54,097
Operating cash flow, as adjusted (5)	570,156	548,781	574,368	2,238,155	2,395,846
Free cash flow (5)	248,225	232,189	221,984	862,494	975,267
Dividends paid	99,946	99,956	99,843	399,768	399,390
Dividend payout ratio (6)	40%	43%	45%	46%	41%

(1) Includes severance costs of \$2.1 million, \$2.6 million and \$17.2 million for the quarters ended December 31, 2013, September 30, 2013 and December 31, 2012, respectively, and \$11.5 million and \$32.0 million for the years ended December 31, 2013 and 2012, respectively.

(2) Reflects non-cash pension settlement charges of \$3.9 million (\$2.4 million after tax) and \$40.3 million (\$25.0 million or \$0.03 per share after tax) during the quarters ended December 31, 2013 and September 30, 2013, respectively, and \$44.2 million (\$27.4 million or \$0.03 per share after tax) during the year ended December 31, 2013 for the accelerated recognition of a portion of the unrecognized actuarial losses in the Company's pension plan as a result of the significant level of lump sum retirement benefit payments made during 2013.

(3) Reflects acquisition and integration costs of \$9.7 million (\$6.1 million or \$0.01 per share after tax) and \$13.5 million (\$8.8 million or \$0.01 per share after tax) for the quarters ended December 31, 2013 and 2012, respectively, and \$9.7 million (\$6.1 million or \$0.01 per share after tax) and \$81.7 million (\$51.2 million or \$0.05 per share after tax) for the years ended December 31, 2013 and 2012, respectively.

(4) Calculation based on weighted average shares outstanding.

(5) Reconciliations to the most comparable GAAP measures are presented in Schedules A and B at the end of these tables.

(6) Represents dividends paid divided by free cash flow, as defined in Schedule A.

**Frontier Communications Corporation**  
**Consolidated Financial and Operating Data**

	For the quarter ended			For the year ended	
	December 31, 2013	September 30, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>(\$ in thousands, except operating data)</i>					
<b>Selected Income Statement Data</b>					
<b>Revenue:</b>					
Local and long distance services	\$ 494,807	\$ 510,080	\$ 542,538	\$2,044,631	\$2,242,632
Data and internet services	472,986	471,211	453,493	1,866,461	1,805,351
Other	77,091	68,772	90,503	298,843	356,995
Customer revenue	1,044,884	1,050,063	1,086,534	4,209,935	4,404,978
Switched access and subsidy	135,485	135,215	146,019	551,641	606,875
Total revenue	\$ 1,180,369	\$ 1,185,278	\$ 1,232,553	\$4,761,576	\$5,011,853

**Other Financial and Operating Data**



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## Income Statement and Operating Data

## Revenue:

Residential	\$ 503,125	\$ 506,073	\$ 521,615	\$2,029,479	\$2,128,859
Business	541,759	543,990	564,919	2,180,456	2,276,119
Customer revenue	1,044,884	1,050,063	1,086,534	4,209,935	4,404,978
Switched access and subsidy	135,485	135,215	146,019	551,641	606,875
Total revenue	<u>\$ 1,180,369</u>	<u>\$ 1,185,278</u>	<u>\$ 1,232,553</u>	<u>\$4,761,576</u>	<u>\$5,011,853</u>

## Customers

3,074,280	3,096,794	3,173,169	3,074,280	3,173,169
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## Residential customer metrics:

Customers	2,803,481	2,822,141	2,887,063	2,803,481	2,887,063
Revenue	\$ 503,125	\$ 506,073	\$ 521,615	\$2,029,479	\$2,128,859
Average monthly residential revenue per customer <sup>(1)</sup>	\$ 59.62	\$ 59.56	\$ 58.54	\$ 59.30	\$ 58.33
Customer monthly churn	1.67%	1.81%	1.62%	1.69%	1.62%

## Business customer metrics:

Customers	270,799	274,653	286,106	270,799	286,106
Revenue	\$ 541,759	\$ 543,990	\$ 564,919	\$2,180,456	\$2,276,119
Average monthly business revenue per customer	\$ 662.15	\$ 656.06	\$ 652.14	\$ 653.26	\$ 639.13

## Employees

13,650	13,937	14,659	13,650	14,659
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## Broadband subscribers

1,866,670	1,838,915	1,754,422	1,866,670	1,754,422
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## Video subscribers

385,353	377,915	346,627	385,353	346,627
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## Switched access minutes of use (in millions)

4,008	4,091	4,523	16,498	18,292
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<sup>(1)</sup> Calculation excludes the Mohave Cellular Limited Partnership.

Note: As stated in our quarterly report for the period ended March 31, 2013, prior period revenue and certain operating statistics have been revised from the previously disclosed amounts to reflect the immaterial reclassification of certain revenues and the related impact on average monthly revenue per customer amounts.

## Frontier Communications Corporation

## Condensed Consolidated Balance Sheet Data

(\$ in thousands)

	December 31, 2013	December 31, 2012
--	-------------------	-------------------

## ASSETS

## Current assets:

Cash and cash equivalents	\$ 880,039	\$ 1,326,532
Accounts receivable, net	479,210	533,704
Restricted cash	11,411	15,408
Other current assets	248,179	211,559
Total current assets	<u>1,618,839</u>	<u>2,087,203</u>

Restricted cash	2,000	27,252
Property, plant and equipment, net	7,255,762	7,504,896
Other assets - principally goodwill	7,758,883	8,114,280
Total assets	<u>\$ 16,635,484</u>	<u>\$ 17,733,631</u>

## LIABILITIES AND EQUITY

## Current liabilities:

Long-term debt due within one year	\$ 257,916	\$ 560,550
Accounts payable and other current liabilities	1,043,671	992,970
Total current liabilities	<u>1,301,587</u>	<u>1,553,520</u>

Deferred income taxes and other liabilities	3,404,749	3,678,893
Long-term debt	7,873,667	8,381,947
Equity	4,055,481	4,119,271
Total liabilities and equity	<u>\$ 16,635,484</u>	<u>\$ 17,733,631</u>

## Frontier Communications Corporation

## Consolidated Cash Flow Data

(\$ in thousands)

3/12/2014

Frontier Communications Reports 2013 Fourth Quarter and Full Year Results (NYSE:FTR)

	For the year ended December 31,	
	2013	2012
<b>Cash flows provided by (used in) operating activities:</b>		
Net income	\$ 115,478	\$ 153,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,169,500	1,266,807
Losses on early extinguishment of debt	159,780	90,363
Pension settlement costs	44,163	-
Pension/OPEB costs	37,243	28,087
Stock based compensation expense	16,932	16,775
Gain on sale of Mohave partnership interest	(14,601)	-
Other non-cash adjustments	11,065	10,319
Deferred income taxes	(7,510)	80,501
Change in accounts receivable	50,487	43,813
Change in accounts payable and other liabilities	(6,507)	(148,906)
Change in other current assets	(80,403)	11,400
<b>Net cash provided by operating activities</b>	<b>1,495,627</b>	<b>1,552,473</b>
<b>Cash flows provided from (used by) investing activities:</b>		
Capital expenditures - Business operations	(634,685)	(748,407)
Capital expenditures - Integration activities	-	(54,097)
Network expansion funded by Connect America Fund	(32,748)	(4,830)
Grant funds received for network expansion from Connect America Fund	63,636	65,981
Proceeds on sale of Mohave partnership interest	17,755	-
Cash transferred from escrow	31,249	102,020
Other assets purchased and distributions received, net	12,300	4,394
<b>Net cash used by investing activities</b>	<b>(542,493)</b>	<b>(634,939)</b>
<b>Cash flows provided from (used by) financing activities:</b>		
Long-term debt borrowings	750,000	1,360,625
Financing costs paid	(19,360)	(27,852)
Long-term debt payments	(1,563,022)	(756,953)
Premium paid to retire debt	(159,429)	(72,290)
Dividends paid	(399,768)	(399,390)
Repayment of customer advances for construction, distributions to noncontrolling interests and other	(8,048)	(21,236)
<b>Net cash provided from (used by) financing activities</b>	<b>(1,399,627)</b>	<b>82,904</b>
(Decrease)/Increase in cash and cash equivalents	(446,493)	1,000,438
Cash and cash equivalents at January 1,	1,326,532	326,094
<b>Cash and cash equivalents at December 31,</b>	<b>\$ 880,039</b>	<b>\$ 1,326,532</b>
<b>Supplemental cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 667,753	\$ 636,485
Income taxes	\$ 94,161	\$ 4,715
<b>Non-cash investing and financing activities:</b>		
Capital lease obligations	\$ 25,082	\$ 26,596
Financing obligation for contributions of real property to pension plan	\$ 23,422	\$ -
Reduction of pension obligation	\$ (23,422)	\$ -
Increase in capital expenditures due to changes in accounts payable	\$ 39,847	\$ 9,802

**Frontier Communications Corporation**  
**Reconciliation of Non-GAAP Financial Measures**

	For the quarter ended			For the year ended	
	December 31,	September 30,	December 31,	December 31,	
	2013	2013	2012	2013	2012

(\$ in thousands)

Operating Income to Adjusted Operating Cash Flow to Free Cash Flow

3/12/2014

Frontier Communications Reports 2013 Fourth Quarter and Full Year Results (NYSE:FTR)

<b>Revenue</b>	<b>\$1,180,369</b>	<b>\$1,185,278</b>	<b>\$1,232,553</b>	<b>\$4,761,576</b>	<b>\$5,011,853</b>
Less: Total operating expenses	922,800	979,106	996,823	3,795,456	4,024,685
Add: Gain on sale of Mohave partnership interest	-	-	-	14,601	-
<b>Operating income</b>	<b>257,569</b>	<b>206,172</b>	<b>235,730</b>	<b>980,721</b>	<b>987,168</b>
Depreciation and amortization	282,275	285,701	304,044	1,169,500	1,266,807
<b>Operating cash flow</b>	<b>539,844</b>	<b>491,873</b>	<b>539,774</b>	<b>2,150,221</b>	<b>2,253,975</b>
<i>Add back:</i>					
Acquisition and integration costs	9,652	-	13,533	9,652	81,737
Pension/OPEB costs (non-cash) <sup>(1)</sup>	14,685	13,950	3,867	37,243	28,087
Pension settlement costs <sup>(2)</sup>	3,854	40,309	-	44,163	-
Severance costs	2,121	2,649	17,194	11,477	32,047
<i>Subtract:</i>					
Gain on sale of Mohave partnership interest	-	-	-	14,601	-
<b>Adjusted operating cash flow</b>	<b>570,156</b>	<b>548,781</b>	<b>574,368</b>	<b>2,238,155</b>	<b>2,395,846</b>
<i>Add back:</i>					
Interest and dividend income	133	382	594	2,401	3,753
Stock based compensation	4,371	3,634	3,825	16,932	16,775
<i>Subtract:</i>					
Cash paid (refunded) for income taxes	11,486	(787)	622	94,161	4,715
Capital expenditures - Business operations <sup>(3)</sup>	150,603	157,560	177,300	634,685	748,407
Interest expense <sup>(4)</sup>	164,346	163,835	178,881	666,148	687,985
<b>Free cash flow</b>	<b>\$ 248,225</b>	<b>\$ 232,189</b>	<b>\$ 221,984</b>	<b>\$ 862,494</b>	<b>\$ 975,267</b>
<b>Operating income margin (Operating income divided by revenue)</b>					
As Reported	21.8%	17.4%	19.1%	20.6%	19.7%
As Adjusted <sup>(5)</sup>	24.4%	22.2%	21.9%	22.4%	22.5%
<b>Operating cash flow margin (Operating cash flow divided by revenue)</b>					
As Reported	45.7%	41.5%	43.8%	45.2%	45.0%
As Adjusted	48.3%	46.3%	46.6%	47.0%	47.8%

<sup>(1)</sup> Reflects pension and other postretirement benefit (OPEB) expense, net of capitalized amounts, of \$16.2 million, \$20.6 million and \$16.8 million for the quarters ended December 31, 2013, September 30, 2013 and December 31, 2012, respectively, less cash pension contributions and certain OPEB costs/payments of \$1.5 million, \$6.6 million and \$13.0 million for the quarters ended December 31, 2013, September 30, 2013 and December 31, 2012, respectively. Reflects pension and OPEB expense, net of capitalized amounts, of \$77.9 million and \$66.3 million for the years ended December 31, 2013 and 2012, respectively, less cash pension contributions and certain OPEB costs/payments of \$40.7 million and \$38.2 million for the years ended December 31, 2013 and 2012, respectively.

<sup>(2)</sup> Reflects non-cash pension settlement charges of \$3.9 million (\$2.4 million after tax) and \$40.3 million (\$25.0 million or \$0.03 per share after tax) during the quarters ended December 31, 2013 and September 30, 2013, respectively, and \$44.2 million (\$27.4 million or \$0.03 per share after tax) during the year ended December 31, 2013 for the accelerated recognition of a portion of the unrecognized actuarial losses in the Company's pension plan as a result of the significant level of lump sum retirement benefit payments made during 2013.

<sup>(3)</sup> Excludes capital expenditures for integration activities.

<sup>(4)</sup> Excludes interest expense related to commitment fees on the bridge loan facility in connection with the pending acquisition of AT&T Inc's. Connecticut wireline business.

<sup>(5)</sup> Excludes acquisition and integration costs, pension and OPEB costs (non-cash), pension settlement costs, severance costs and gain on sale of Mohave partnership interest.

**Frontier Communications Corporation**  
**Reconciliation of Non-GAAP Financial Measures**

*(\$ in thousands, except per share amounts)*

	For the quarter ended	
	December 31, 2013	September 30, 2013
		December 31, 2012



3/12/2014

## Frontier Communications Reports 2013 Fourth Quarter and Full Year Results (NYSE:FTR)

<u>Net income attributable to common shareholders of Frontier</u>	Net Income	Earnings Per Share	Net Income	Earnings Per Share	Net Income	Earnings Per Share
GAAP, as reported	\$ 67,755	\$ 0.07	\$ 35,400	\$ 0.04	\$ 24,879	\$ 0.02
Pension settlement costs	2,389	-	24,992	0.03	-	-
Losses on early extinguishment of debt	-	-	-	-	12,120	0.01
Gain on investment in Adelphia	-	-	-	-	(50)	-
Acquisition and integration costs	6,124	0.01	-	-	8,819	0.01
Severance costs	1,419	-	1,626	-	10,839	0.01
Acquisition related interest expense <sup>(1)</sup>	793	-	-	-	-	-
Discrete tax items <sup>(2)</sup>	(6,236)	(0.01)	(5,557)	(0.01)	361	-
<b>Non-GAAP, as adjusted <sup>(3)</sup></b>	<b>\$ 72,244</b>	<b>\$ 0.07</b>	<b>\$ 56,461</b>	<b>\$ 0.06</b>	<b>\$ 56,968</b>	<b>\$ 0.06</b>

## For the year ended

	December 31, 2013		December 31, 2012	
<u>Net income attributable to common shareholders of Frontier</u>	Net Income	Earnings Per Share	Net Income	Earnings Per Share
GAAP, as reported	\$112,835	\$ 0.11	\$136,636	\$ 0.14
Pension settlement costs	27,381	0.03	-	-
Losses on early extinguishment of debt	98,888	0.10	56,748	0.06
Gain on sale of Mohave partnership interest	(8,591)	(0.01)	-	-
Gain on investment in Adelphia	(889)	-	(6,122)	(0.01)
Acquisition and integration costs	6,124	0.01	51,167	0.05
Severance costs	7,283	0.01	20,061	0.02
Acquisition related interest expense <sup>(1)</sup>	793	-	-	-
Discrete tax items <sup>(2)</sup>	(4,993)	(0.01)	(5,306)	(0.01)
<b>Non-GAAP, as adjusted <sup>(3)</sup></b>	<b>\$238,831</b>	<b>\$ 0.24</b>	<b>\$253,184</b>	<b>\$ 0.26</b>

<sup>(1)</sup> Represents interest expense related to commitment fees on the bridge loan facility in connection with the pending acquisition of AT&T Inc.'s, Connecticut wireline business.

<sup>(2)</sup> Includes impact arising from state law changes, the net reversal of uncertain tax positions, changes in deferred tax balances, federal research and development tax credits, non-deductible transaction costs and the settlement of IRS audit.

<sup>(3)</sup> Non-GAAP, as adjusted may not sum due to rounding.

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# Investor Update

Fourth Quarter 2013



*frontier*<sup>®</sup>

February 24, 2014



# Safe Harbor Statement

## Forward-Looking Language

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the financial statements. Statements that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Words such as “believe,” “expect,” “anticipate,” and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, and our future results may be materially affected by, the following potential risks or uncertainties. You should understand that it is not possible to predict or identify all potential risks or uncertainties. We note the following as a partial list: our ability to complete the acquisition of the Connecticut operations from AT&T; the ability to successfully integrate the Connecticut operations of AT&T into our existing operations; the risk that the growth opportunities and cost savings from the AT&T Transaction may not be fully realized or may take longer to realize than expected; the sufficiency of the assets to be acquired from AT&T to enable the combined company to operate the acquired business; failure to enter into or obtain, or delays in entering into or obtaining, certain agreements and consents necessary to operate the acquired business as planned; the failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals for the AT&T Transaction; the effects of increased expenses incurred due to activities related to the AT&T Transaction; disruption from the AT&T Transaction making it more difficult to maintain relationships with customers or suppliers; the effects of greater than anticipated competition from cable, wireless and other wireline carriers that could require us to implement new pricing, marketing strategies or new product or service offerings and the risk that we will not respond on a timely or profitable basis; reductions in the number of our voice customers that we cannot offset with increases in broadband subscribers and sales of other products and services; our ability to maintain relationships with customers, employees or suppliers; the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, or changes in the enforcement or interpretation of such legislation and regulation; the effects of any unfavorable outcome with respect to any current or future legal, governmental or regulatory proceedings, audits or disputes; the effects of changes in the availability of federal and state universal service funding or other subsidies to us and our competitors; our ability to successfully adjust to changes in the communications industry and to implement strategies for growth; continued reductions in switched access revenues as a result of regulation, competition or technology substitutions; our ability to effectively manage service quality in our territories and meet mandated service quality metrics; our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to customers; the effects of changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations; our ability to effectively manage our operations, operating expenses and capital expenditures, and to repay, reduce or refinance our debt; the effects of changes in both general and local economic conditions on the markets that we serve, which can affect demand for our products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures related to new construction of residences and businesses; the effects of technological changes and competition on our capital expenditures, products and service offerings, including the lack of assurance that our network improvements in speed and capacity will be sufficient to meet or exceed the capabilities and quality of competing networks; the effects of increased medical expenses (including as a result of the impact of the Patient Protection and Affordable Care Act) and pension and postemployment expenses, such as retiree medical and severance costs, and related funding requirements; the effects of changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments; our ability to successfully renegotiate union contracts; changes in pension plan assumptions and/or the value of our pension plan assets which could require us to make increased contributions to the pension plan in 2014 and beyond; the effects of economic downturns, including customer bankruptcies and home foreclosures, which could result in difficulty in collection of revenues and loss of customers; adverse changes in the credit markets or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing to us; our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes and liquidity may affect our payment of dividends on our common shares; the effects of state regulatory cash management practices that could limit our ability to transfer cash among our subsidiaries or dividend funds up to the parent company; and the effects of severe weather events such as hurricanes, tornadoes, ice storms or other natural or man-made disasters. These and other uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission, including our reports on Forms 10-K and 10-Q, and the foregoing information should be read in conjunction with these filings. We undertake no obligation to publicly update or revise any forward-looking statements or to make any other forward-looking statement, whether as a result of new information, future events or otherwise unless required to do so by securities laws.

# Non-GAAP Financial Measures

The Company uses certain non-GAAP financial measures in evaluating its performance. These include non-GAAP adjusted net income attributable to common shareholders of Frontier, free cash flow, or “operating cash flow,” which we define as operating income plus depreciation and amortization (“EBITDA”), and Adjusted EBITDA; a reconciliation of the differences among EBITDA, Adjusted EBITDA and free cash flow and the most comparable financial measures calculated and presented in accordance with GAAP is included in the appendix. The non-GAAP financial measures are by definition not measures of financial performance under GAAP and are not alternatives to operating income or net income reflected in the statement of operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures of other companies.

The Company believes that the presentation of non-GAAP financial measures provides useful information to investors regarding the Company’s financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the Company’s core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions and, (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the Company and its results of operations. In addition, the Company believes that free cash flow, EBITDA and Adjusted EBITDA, as the Company defines them, can assist in comparing performance from period to period, without taking into account factors affecting cash flow reflected in the statement of cash flows, including changes in working capital and the timing of purchases and payments.

The Company has shown adjustments to its financial presentations to exclude certain costs because investors have indicated to management that such adjustments are useful to them in assessing the Company and its results of operations. These adjustments are detailed in the Appendix for the reconciliation of free cash flow, EBITDA and Adjusted EBITDA.

Management uses these non-GAAP financial measures to (i) assist in analyzing the Company’s underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and (v) assist management in understanding the Company’s ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures. These non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments and dividends are not deducted in determining such measure. EBITDA has similar shortcomings as interest, income taxes, capital expenditures, debt repayments and dividends are not deducted in determining this measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. The information in this document should be read in conjunction with the financial statements and footnotes contained in our documents filed with the U.S. Securities and Exchange Commission.

Note: Numbers are rounded and may not sum. On pages 5, 6, 15 and 17 all prior period Revenues and Adjusted EBITDA exclude Mohave Cellular Limited Partnership results, which was sold on April 1, 2013.

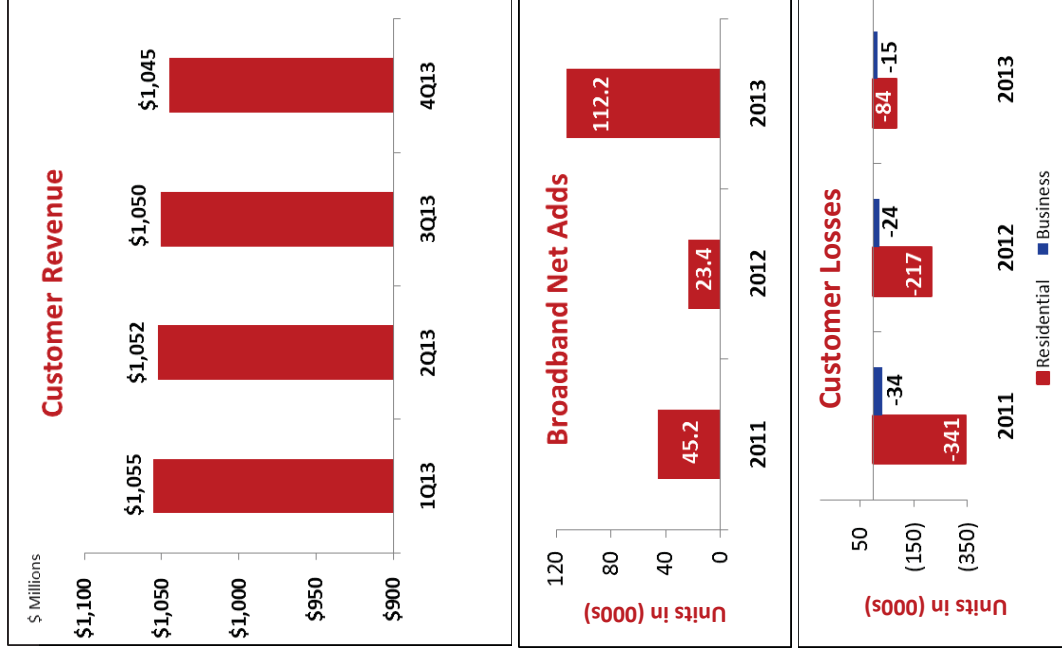
# Earnings Call Agenda

- Strategic Overview      Maggie Wilderotter, Chairman and CEO
- Operational Results      Dan McCarthy, President and COO
- Financial Results      John Jureller, EVP and CFO

Note: Numbers are rounded and may not sum. On pages 5, 6, 15 and 17 all prior period Revenues and Adjusted EBITDA exclude Mohave Cellular Limited Partnership results, which was sold on April 1, 2013.

# 2013 Accomplishments

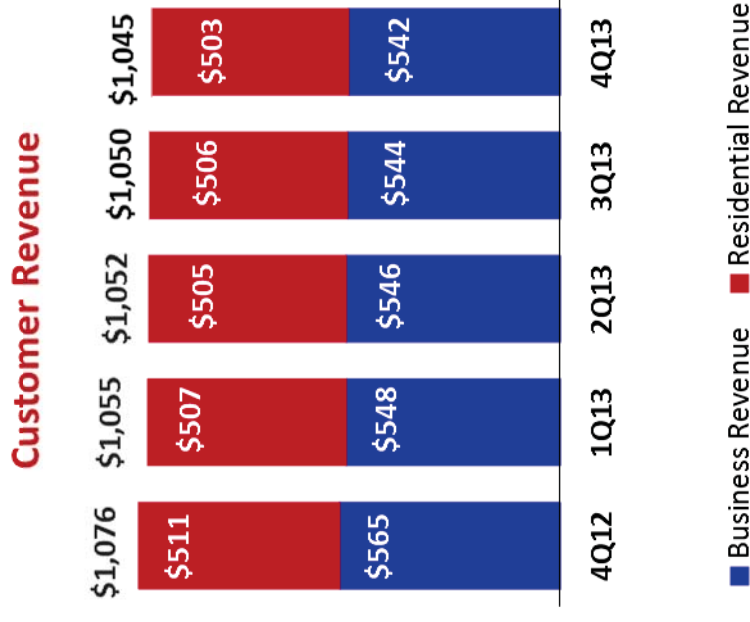
- Improving revenue performance
- Achieved a strong and consistent pattern of quarterly broadband growth
- Gained Residential broadband market share in 84% of local markets
- Improved residential customer retention 61% yr/yr
- Maintained Industry-leading margins and continued to reduce expenses
- Continued the expansion of offerings and network capabilities
- Maintained an attractive, sustainable dividend supported by a low payout ratio



# Strategic and Operating Achievements

## *Fourth Quarter Results*

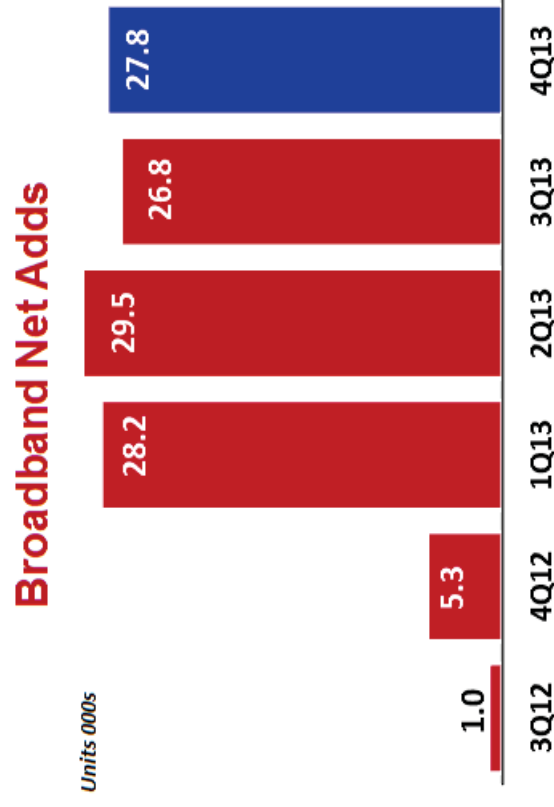
- Customer revenue continues improved trend of recent quarters
- Strong broadband net adds of 27,755
- Bundles and pricing continue to resonate in the market
- Local Engagement Strategy continues to deliver results
- Improved customer retention
- Maintained industry-leading margins



# Key Strategic and Operating Objectives

## Lead with Broadband

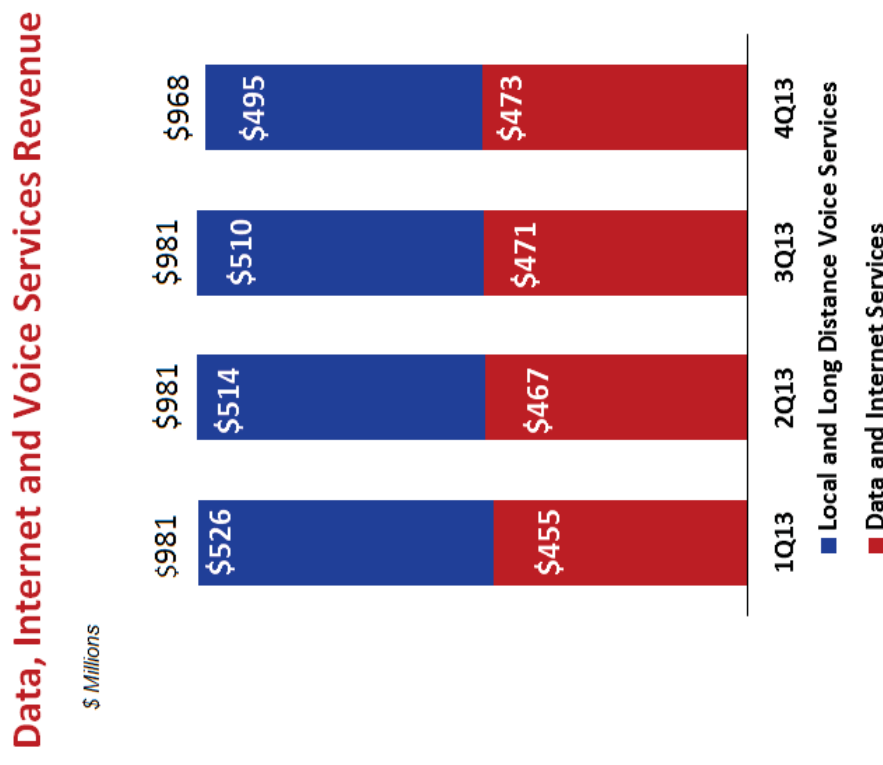
- Increasing Broadband penetration remains Frontier's priority
- Achieved 4 quarters of consistent broadband momentum
- Frontier Secure attach rate increased to over 45% in Q4
- 85% of Q4 Residential customer gross adds included broadband



# Key Strategic and Operating Objectives

## Drive Revenue Growth

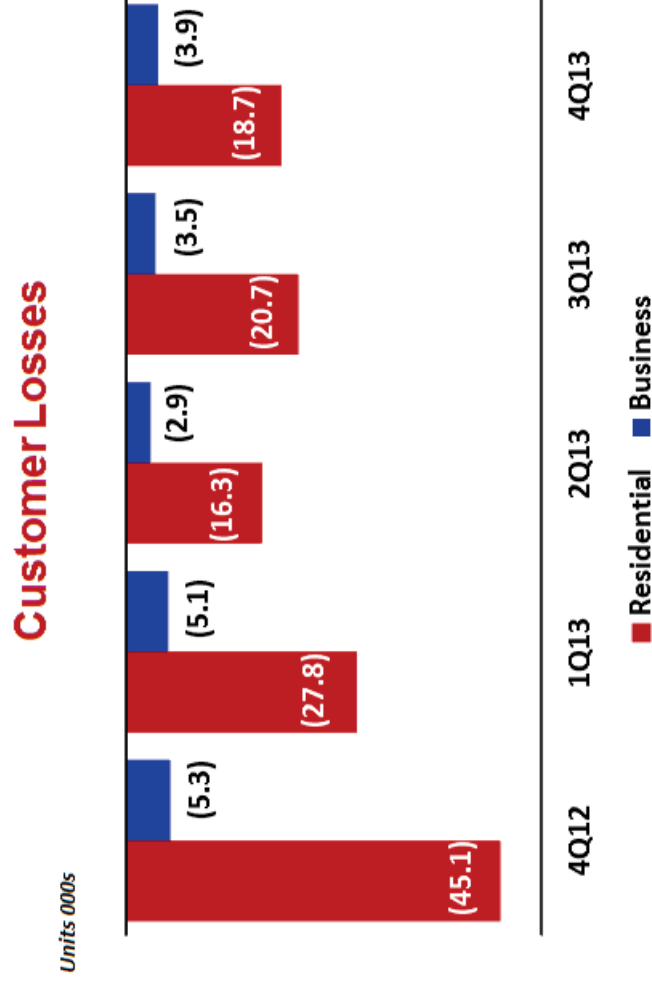
- Bundled product momentum continues
- Improved revenue trend in small business segment
- Sequential increases in data and internet services revenue helped offset declines in voice services
- Wireless backhaul decline in line with expectations



# Key Strategic and Operating Objectives

## Keep Customers

- Improving rate of customer losses:
  - Residential improved 59% as compared to sequential loss in Q4 2012
  - Business improved 27% as compared to sequential loss in Q4 2012
- Expanded and enhanced customer product and service offerings





# Key Strategic and Operating Objectives

## *Simplification & Cost Savings*

- Achieved anticipated net expense reductions
- Additional cost reduction opportunities exist in our core business in 2014
- Expense managements and improvements are business-as-usual and part of Frontier's culture
- Additional cost saving opportunities can be realized with the Connecticut acquisition



# Connecticut Acquisition Overview

## Attractive Assets

- \$2 billion acquisition, at an attractive valuation of 4.8x EBITDA
- High quality asset with well-built / maintained network
  - 96% broadband coverage; 42% U-verse coverage
- Leverages Frontier's core competencies in a contiguous geography
- 48% rural or lower-density suburban

## We have done this before

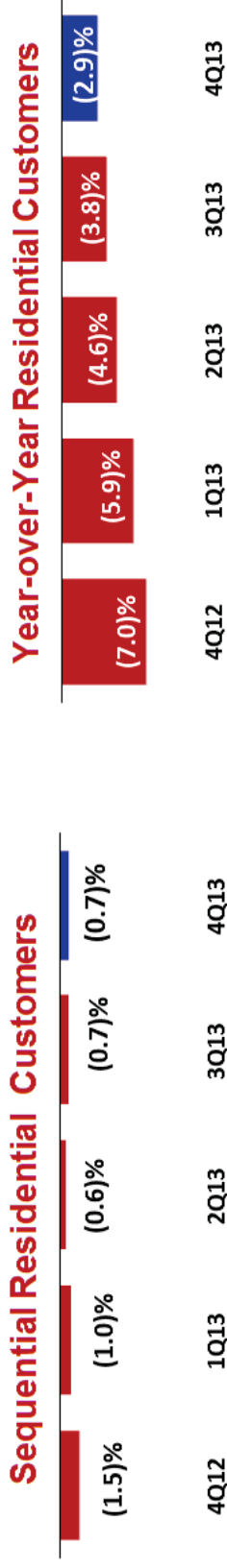
- Scale enhances strategic and operational flexibility
- Estimated \$125 million of cost synergies plus \$75 million of allocated costs eliminated = \$200 million total savings
- Rural heritage with extensive experience in mid-size cities

## Transaction Creates Value

- Free Cash Flow accretive in the first full year
- Improves dividend payout ratio in the first full year
- All cash – no ownership dilution for shareholders

# Operational Review

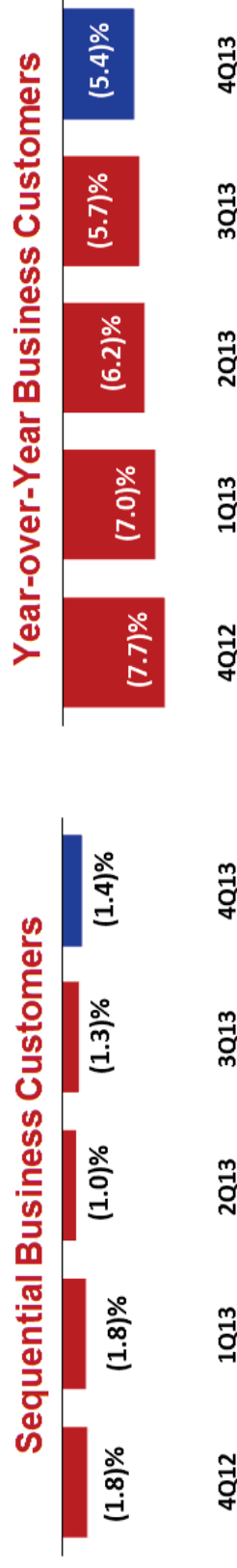
## Residential



- Broadband unit growth and residential customer losses improved year-to-year
- Over 30% of Broadband gross adds obtained through alternate channels
- Sequential increase in data revenue helped offset sequential voice revenue declines
- Frontier Secure attach rate to Broadband was over 45% in Q4
- Substantial market opportunity remains:
  - Residential aggregate broadband market share percentage in the low 20s
  - Substantial opportunity to add new customer and migrate existing customers to higher speed tiers

# Operational Review

## Business



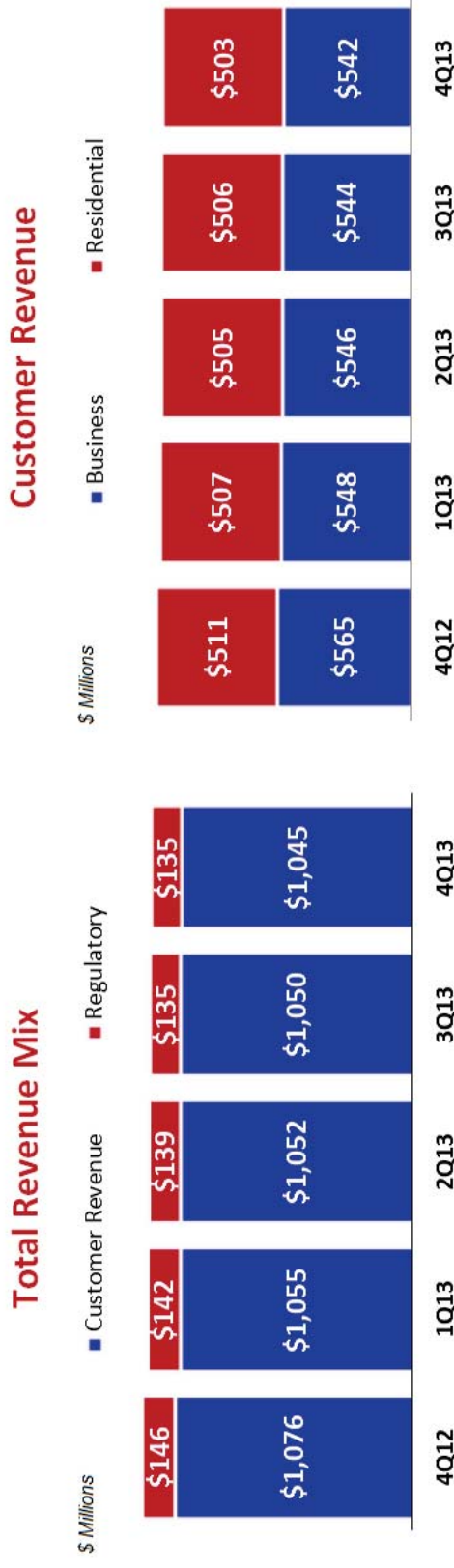
- New small business bundles contributed to an improved Q4 revenue trend
- The business segment grew 0.5% sequentially; excluding wireless backhaul
- Alternate channel expansion, including new distributor additions
- Continued expansion of Gigabit Ethernet complemented by new Quality of Service features in Q1
- Wireless backhaul revenue declines on track to wind down in 2H 2014

# Operational Review

## *Progress with Network*

- Broadband availability increased by 167,000 households in 2013
  - Built 56,000 new households from Federal CAF subsidy in 2013
  - Began deployment of second round of CAF additional Phase 1 funds covering 101,714 households
  - Broadband availability now at 90% of homes passed
- Gigabit Ethernet availability expanded to 88% of Central Offices
- Satellite Broadband added incremental coverage for unserved homes in remote areas
- 23% of Broadband sales and upgrades were above basic speed tiers in Q4
- Broadband speeds and capacity increased in 2013:
  - Almost 50% of HHs are capable of 20 Mbps or more
  - Over 60% of HHs capable of 12 Mbps

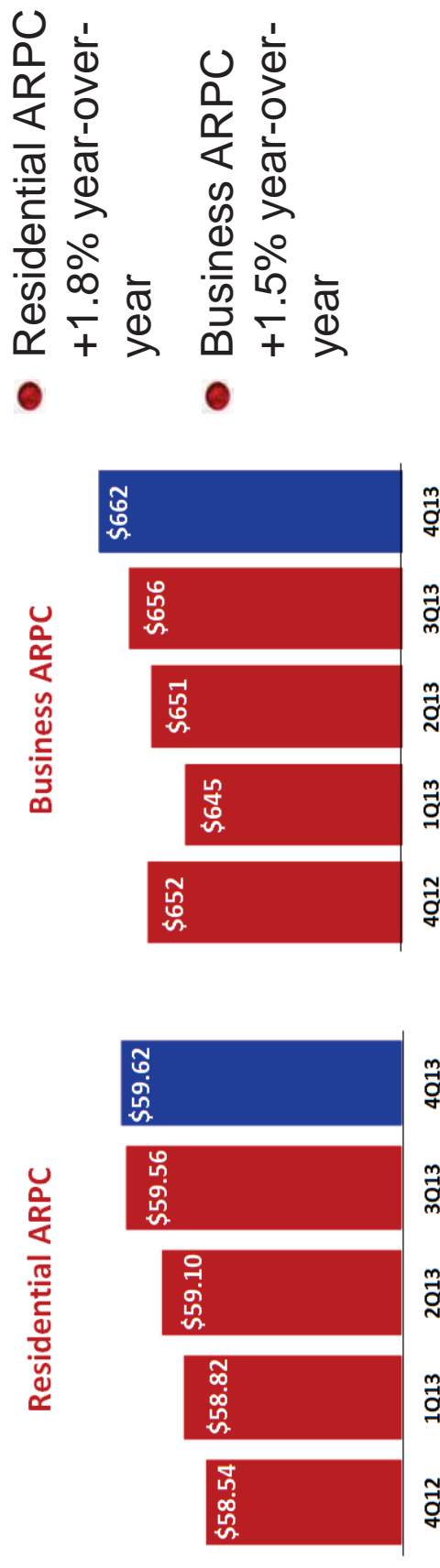
# Revenues



- Customer revenue declined 0.5% sequentially
- Broadband unit and market share improvement continues
- Residential revenue declined 0.6% sequentially
- Business revenue declined 0.4% sequentially



# Residential and Business ARPC

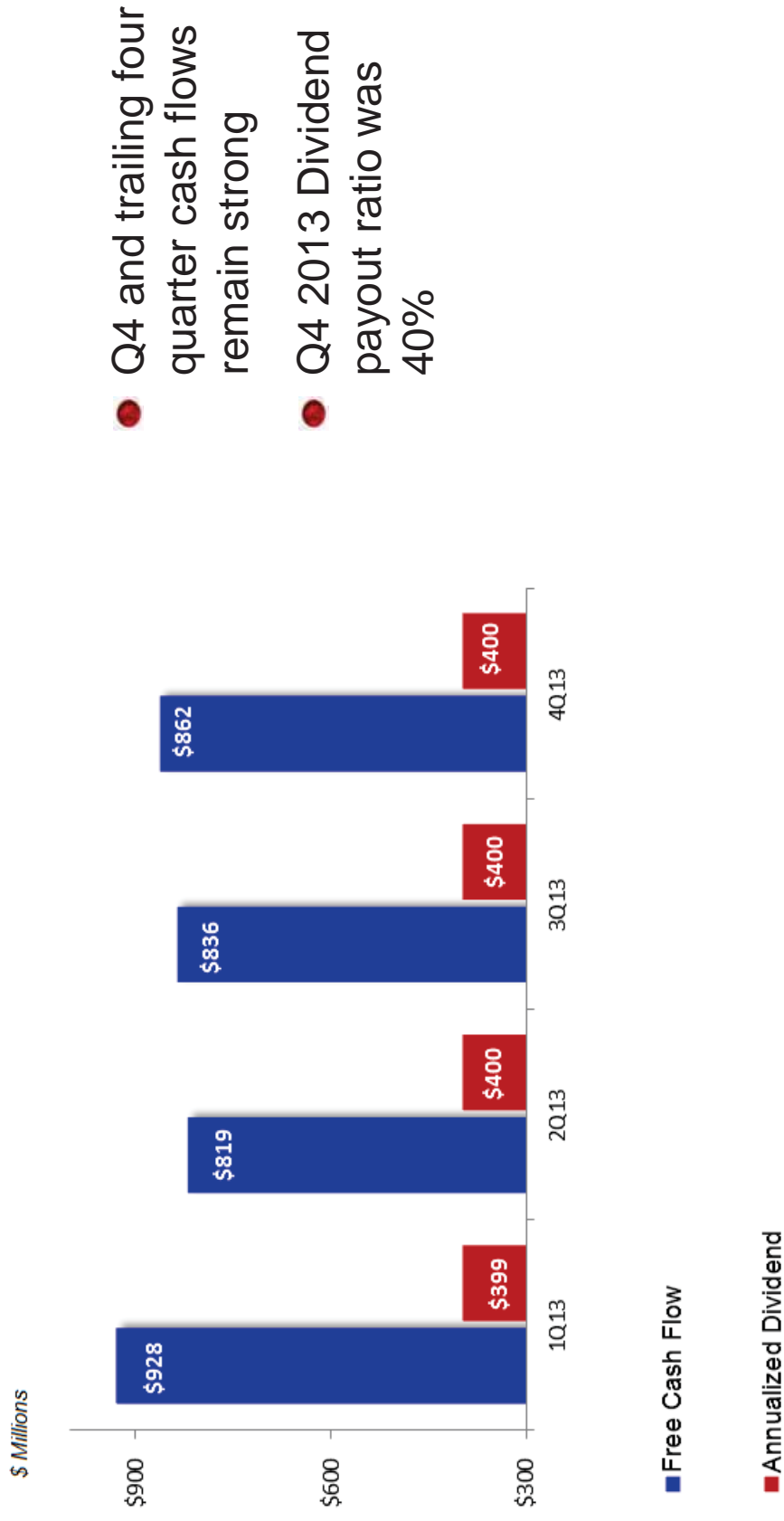


# Operating Expenses

## *Maintaining Industry-leading Margins*

	4Q12	1Q13	2Q13	3Q13	4Q13
<i>\$ Millions</i>					
Total Reported Cash Operating Expenses	\$658	\$643	\$633	\$636	\$610
Adjusted EBITDA Margin	46.4 %	46.6 %	46.8 %	46.3 %	48.3 %

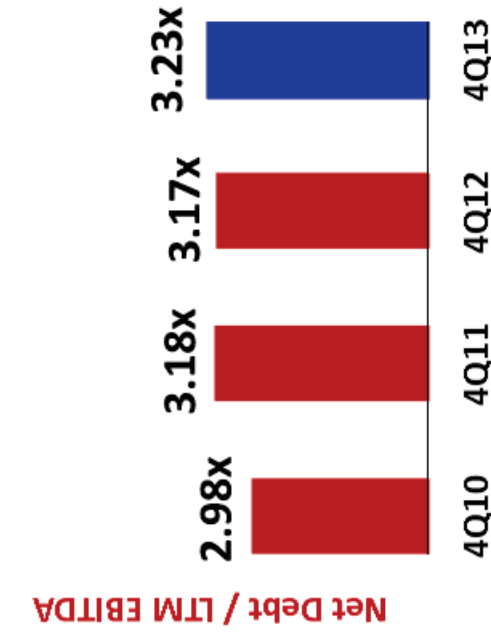
# Free Cash Flow / Dividend Payout



# Credit and Liquidity

## Net Leverage

December 31, 2013



\$ Millions

Cash & Equivalents	\$880
Restricted Cash	13
Credit Facility	750
Total Liquidity	<u>\$1,643</u>
Total Debt	\$8,132
LTM Adj. EBITDA <sup>1</sup>	\$2,238
Leverage Ratio <sup>1</sup>	3.23x

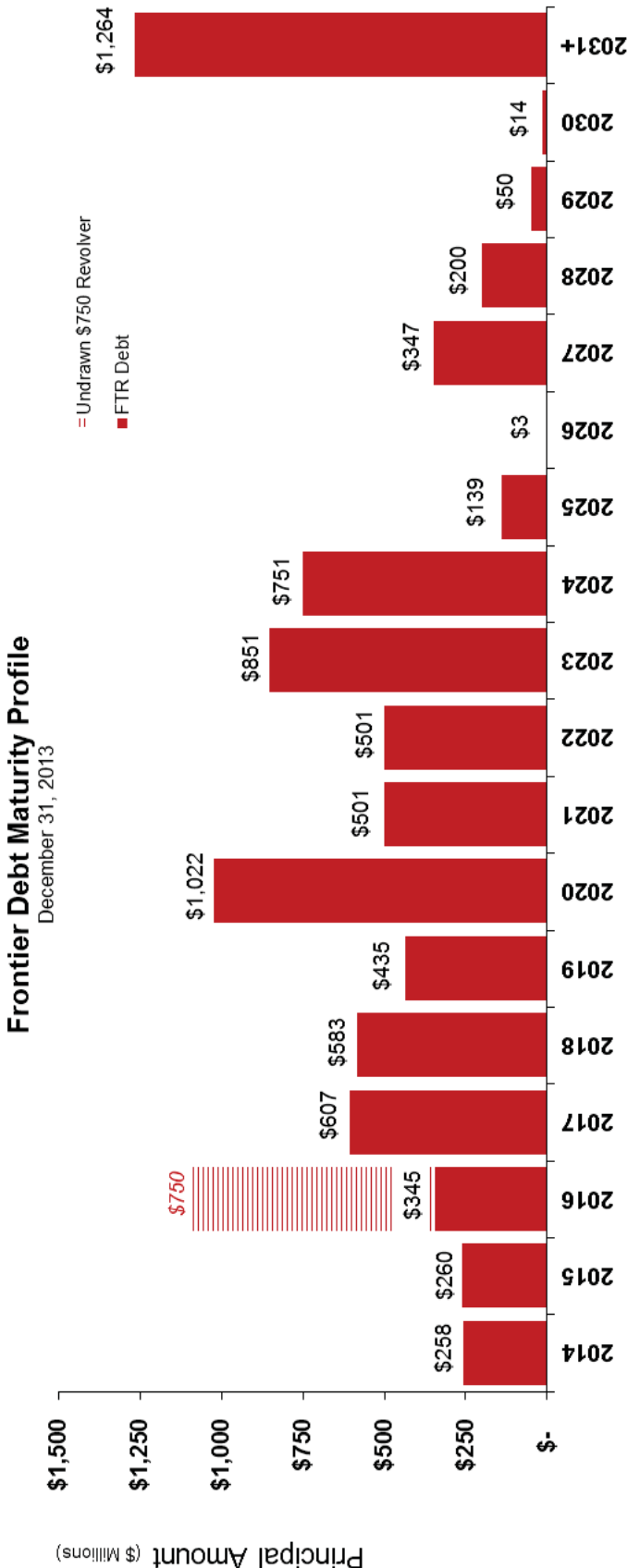
● Leverage (Net Debt / Adj EBITDA) for 4Q13 at 3.23x

● \$1.64B of liquidity at the end of Q4

Notes: (1) Calculation excludes non-current restricted cash of \$2 million. LTM Adj. EBITDA includes results of Mohave partnership.

# Debt Profile

- \$258 million current and \$7.874 billion long-term debt outstanding
- \$750 million Revolving Credit Facility commitment through November 2016
- \$1.9 billion Bridge Facility in place for Connecticut acquisition (not included in Debt Maturity Profile below)



# Guidance

	2014	
	Low	High
Leveraged Free Cash Flow	\$725	\$775
Capital Expenditures (ex. Integration and CAF)	\$575	\$625
Cash Taxes	\$130	\$160
Integration Operating Expenses	\$140	\$170
Integration Capital Expenditures	\$85	\$105

\$ Millions



## Appendix



# Non-GAAP Reconciliation

## Quarterly Revenue

	4Q12	% Chg	1Q13	% Chg	2Q13	% Chg	3Q13	% Chg	4Q13
<i>\$ Millions</i>									
Residential Revenue Excluding Mohave partnership	\$511	(0.8)%	\$507	(0.3)%	\$505	0.1 %	\$506	(0.6)%	\$503
Business Revenue	<u>565</u>	(2.9)%	<u>548</u>	(0.4)%	<u>546</u>	(0.4)%	<u>544</u>	(0.4)%	<u>542</u>
Total Customer Revenue	\$1,076	(1.9)%	\$1,055	(0.3)%	\$1,052	(0.2)%	\$1,050	(0.5)%	\$1,045
Switched Access and Subsidy Revenue	<u>146</u>	(2.6)%	<u>142</u>	(2.5)%	<u>139</u>	(2.5)%	<u>135</u>	0.2 %	<u>135</u>
Total Revenue Excluding Mohave partnership	\$1,222	(2.0)%	\$1,198	(0.6)%	\$1,191	(0.4)%	\$1,185	(0.4)%	\$1,180
Mohave partnership Revenue	\$11		\$8		-		-		-
Reported Total Revenue	<u>\$1,233</u>	(2.2)%	<u>\$1,205</u>	(1.2)%	<u>\$1,191</u>	(0.4)%	<u>\$1,185</u>	(0.4)%	<u>\$1,180</u>

# Non-GAAP Reconciliation

Three Months Ended:

December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31 2013
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\$ Millions

Operating Cash Flow

## Operating income

\$	236	\$	251	\$	266	\$	206	\$	258
----	-----	----	-----	----	-----	----	-----	----	-----

Add back:

Depreciation and amortization

	304		304		298		286		282
--	-----	--	-----	--	-----	--	-----	--	-----

## Operating cash flow (EBITDA)

\$	540	\$	554	\$	564	\$	492	\$	540
----	-----	----	-----	----	-----	----	-----	----	-----

Add back:

Non-cash pension/OPEB costs

	4		5		4		14		15
--	---	--	---	--	---	--	----	--	----

Pension settlement costs

	-		-		-		40		4
--	---	--	---	--	---	--	----	--	---

Severance costs

	17		2		4		3		2
--	----	--	---	--	---	--	---	--	---

Acquisition and integration costs

	14		-		-		-		10
--	----	--	---	--	---	--	---	--	----

Subtract:

Gain on Sale of Mohave partnership interest

	-		-		15		-		-
--	---	--	---	--	----	--	---	--	---

## Operating income, as adjusted

\$	270	\$	258	\$	259	\$	263	\$	288
----	-----	----	-----	----	-----	----	-----	----	-----

## Operating cash flow, as adjusted (Adjusted EBITDA)

\$	574	\$	562	\$	557	\$	549	\$	570
----	-----	----	-----	----	-----	----	-----	----	-----

Add back:

Interest and dividend income

	1		2		0		0		0
--	---	--	---	--	---	--	---	--	---

Stock-based compensation

	4		4		5		4		4
--	---	--	---	--	---	--	---	--	---

Subtract:

Cash paid (received) for income taxes (refunds)

	1		1		83		(1)		11
--	---	--	---	--	----	--	-----	--	----

Capital expenditures - Business operations

	177		189		138		158		151
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Interest expense

	179		171		167		164		164
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## Free cash flow

\$	222	\$	206	\$	176	\$	232	\$	248
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Note: Adjusted EBITDA, less Mohave partnership Adjusted EBITDA of \$7 million and \$4 million results in Adjusted EBITDA excluding the Mohave partnership of \$567 million and \$558 million for the three months ended December 31, 2012 and March 31, 2013, respectively.

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